BDC

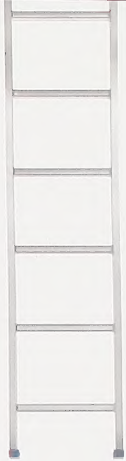
Leading

Annual Report 2007

Canada

as a
development
bank

means...



Who we are

The Business Development Bank of Canada (BDC) is a Crown corporation wholly owned by the Government of Canada. We are accountable to Parliament through the Minister of Industry.

What we do

We promote entrepreneurship by providing financing, consulting and venture capital services to Canadians who are creating and growing small and medium-sized enterprises (SMEs). These services complement those of private sector financial institutions.

Why we do it

When they succeed, entrepreneurs make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.

Table of Contents

Highlights

Fiscal 2007

] Total number of entrepreneurs supported: 27,000

] Total authorizations in support of these entrepreneurs: $2.8 billion

] Total portfolio: $9.8 billion

] Client satisfaction rating: 93%

February – BDC creates a new development fund for Aboriginal businesses.

September – BDC launches the Transition Program, a targeted financing and consulting service to help retiring entrepreneurs manage the ownership transition of their businesses.

October – BDC celebrates the Young Entrepreneurs Award at its Small Business Week® gala in Greater Moncton.

A year of renewal and continued excellence

October – BDC ranks among Canada's Top 100 Employers.

November – BDC creates GO Capital, a $100-million co-investment fund managed by BDC for business creation and start-up in Quebec's high-tech sector.

December – BDC creates a second AlterInvest fund in partnership with the Caisse de dépôt et placement du Québec, with $330 million in capital for Canadian SMEs. BDC is the fund manager.

BDC services benefit clients
who are just starting out.

daring
to take the road
less travelled

When BDC Venture Capital invests in a firm, other venture capital investors become interested.

having
a leveraging effect

BDC works with entrepreneurs even when the going gets tough.

being
there when it counts

BDC clients have faith in the future.
Most see themselves as experiencing rapid growth.

believing
in the future

Chairman's Message

Terry B. Grieve

I am pleased to report that BDC has had another very successful year.

This past year, 27,000 Canadian entrepreneurs benefited from BDC's support.

In 1995, Parliament identified gaps in the market's provision of services to small and medium-sized enterprises (SMEs). To support entrepreneurs hindered by these gaps, it passed the *Business Development Bank of Canada Act*.

BDC is the only financial institution in Canada that is exclusively dedicated to promoting entrepreneurship.

We directors are stewards. We ensure that BDC does what it was created to do. We are vigilant in ensuring that it does so, and that it does not step outside the boundaries of its mandate. We are accountable to Parliament through the Minister of Industry.

We oversee BDC to ensure that it delivers results in a way that is effective, ethical and efficient.

We:

- approve BDC's strategic direction, corporate plan and priorities;
- ensure that BDC is identifying and managing its risks;
- review and approve management's succession plan;
- ensure the highest standards of corporate governance;
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure; and
- monitor BDC's pension plans, and establish its fund policies and practices.

We seek assurance that BDC anticipates and meets the needs of Canada's SMEs – which, of course, are constantly changing. The most powerful force pushing SMEs to evolve is globalization.

Globalization is throwing up both challenges and opportunities, obliging SMEs to move up the value chain. This is why we were very pleased to endorse BDC's new Manufacturers Plus strategy. The strategy will provide tailored support to Canada's SME manufacturers, who are facing a range of challenges posed by globalization.

Canada's SMEs must learn and strive to be globally competitive. BDC is here to support them.

The past year also saw significant changes to BDC's senior management team. We Board members were actively involved with the CEO in that process. Our goal is to ensure BDC has the right people to give it continuous, high-quality management, now and in the future.

For more information on our decisions of the past year, please see page 83.

I join my colleagues in thanking Cedric Ritchie, who left our Board in January 2007 after six years as Chairman. We were fortunate to have enjoyed the privilege and pleasure of working with Cedric; we learned much under his guidance and wish him well. Thank you as well to Louis Duhamel for his three years of service on BDC's Board.

Finally, on behalf of my colleagues, I want to thank Parliament for the privilege of sitting on BDC's Board of Directors. Being part of BDC's contribution to Canadian society is an honour as well as a responsibility.

Terry B. Grieve
Interim Chairman

President's Message

Jean-René Halde
President and Chief Executive Officer

When Parliament created BDC, it created an autonomous, flexible instrument of public policy to promote entrepreneurship by supporting Canadians who are starting and growing their own businesses. I trust you will find this report answers your questions about how we are doing so effectively, ethically and efficiently.

We provide loans, investment and consulting services to Canadian entrepreneurs. These services *complement* those of private sector financial institutions; they support entrepreneurs who are hindered by gaps in the market's provision of financial services. We are commercially viable and do not receive an annual subsidy from Parliament.

This past year was very successful. From 94 locations across Canada, 1,700 BDC employees supported 27,000 entrepreneurs.

Management Results

Our clients were pleased with our services: their satisfaction rate, measured by a survey done by a third party, was 93%. We have a total portfolio of $9.8 billion. Most of this, $9.1 billion, is in loans; it also includes $148 million in subordinate financing and $505 million in equity investments in venture capital. Our consulting revenues reached a new high of $23.5 million this year.

Our return on common equity was 8.5%. This result will enable a dividend payment of $21.5 million to our sole shareholder, the Government of Canada. Since 1997, we have also paid $118.7 million in dividends.

In sum, BDC had a very solid year. We had quite good results in our financing, subordinate financing and consulting portfolios, and this profitability easily offset the unrealized losses registered in our venture capital portfolio.

BDC has only one client: SMEs. We focus exclusively on their needs. We have ongoing business relationships with more than 27,000 of them and do research into their market. We possess a wealth of information about SMEs and their competitive environment.

Competitiveness

To survive and prosper, our SMEs must rise to the challenge of becoming as competitive as their counterparts in the United States, Canada's biggest trading partner and market.

They must also rise to meet the growing economic clout of countries such as China and India. They must adapt to the challenge posed by the large, productive workforces of these places. Equally important, they must take hold of the opportunities provided by the purchasing power of these countries' large, growing middle classes. Finally, they must harness the productivity increases offered by global production chains, as well as take greater advantage of technology, as costs continue to fall and more people gain access to telecommunications and the Internet.

Globalization is proving to be a bracing challenge for Canada's manufacturers, especially in the context of a rising Canadian dollar. Our approach is to help them become more innovative and competitive. Our new Manufacturers Plus strategy offers tailored financing and consulting services to SME manufacturers to help them identify the sources of their difficulties and to mobilize them, in a variety of ways, to take competitive action.

Another way we help SMEs is by supporting their investments in research and development, management training and process re-engineering. Unlike machinery or equipment, these assets are intangible. However, they are crucial to business success.

Globalization is thrusting SMEs into a knowledge-based, innovation-driven world economy. BDC is here to help them move up the value chain.

An Important Breed of SME: Venture Capital Entrepreneurs

We pay particular attention to entrepreneurs who are working to commercialize the fruits of research and development – university or lab discoveries – to create attractive products and globally successful companies. These entrepreneurs, a relatively small group, are the ones who think in global terms from day one and plan accordingly. They are our venture capital clients.

Canada needs globally successful SMEs that specialize in sectors such as life sciences and information technology. However, commercializing innovative ideas is complex, difficult and risky; success takes time, money and a sequenced range of separate, sophisticated skills. Entrepreneurs must determine a commercial application for their innovation, create and manage a company well, do market research, build a prototype, produce, distribute and sell. Last but not least, they must attract venture capital to finance the solutions to these challenges. Hence our support.

BDC helps them meet many of these challenges. In an effort to fill an important gap in the market, we do business that accounts for an important part of all seed investments across the country. We also collaborate with other venture capital firms, Canadian and foreign, to leverage more support for our clients.

At the request of our Minister, we commissioned an external expert to assess our venture capital activities and performance. This assessment found that BDC has a very positive and growing impact on the size of venture capital financings in Canada, as well as on the presence of foreign investors in these financings. Please read more on page 29.

The BDC Team

This past year saw the retirement of two colleagues, André Bourdeau and Alan Marquis. André held several roles over his three-decade career – including acting president prior to my arrival – and was a much-loved mentor to countless colleagues. Alan, our chief financial officer, was known for his knowledge and wit. Although both gentlemen have left, BDC continues to benefit from the contributions they made during their tenure here. We wish them well.

Since my arrival at BDC almost two years ago, I have been constantly impressed by the talent, professionalism and dedication of its employees. Parliament can count on their effective, efficient and reliable support of Canada's entrepreneurs.

Jean-René Halde
President and Chief Executive Officer

Key Performance Indicators & Objectives

BDC's approach to business is founded on:

- clients
- employees
- efficiency
- financial sustainability

We turn our strategies into balanced performance measurements.

Corporate Objectives

Clients: To create a unique and valued relationship with Canadian entrepreneurs, to support the creation of their businesses and accompany their growth (measured by client satisfaction).

Employees: To foster a culture of engagement, learning and growth (measured by employee engagement).

Efficiency: To establish effective and efficient operating and administrative expenses as a percentage of net interest and other income (measured by the efficiency ratio).

Financial sustainability: To fulfill our mandate: be profitable to fund the growth of our portfolio, generate a return on common equity (ROE) at least equal to the government's average long-term cost of capital and be able to withstand unfavourable economic circumstances without requiring government funding (measured by ROE).

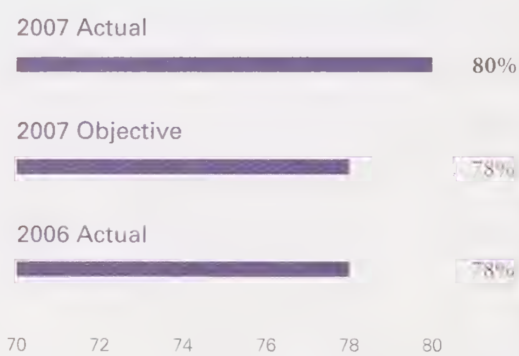
Performance

Client Satisfaction

- We offer our clients valuable information, advice and services. We are also systematic about contacting them frequently. Overall client satisfaction rating: 93%.

Employee Engagement

- Leaders throughout BDC focus on engaging employees, using valuable employee feedback to do so. Employee engagement rose 2 points from last year to 80%.



Efficiency Ratio*

- At 50.2%, we met our Corporate Plan target (51%) but not our revised internal target (49.7%). This is mostly because of a higher number of branches and employees to support a greater amount of business activity.

* The lower the ratio, the higher the efficiency achieved

** Represents new internal objective. Corporate Plan: 51%.

2008 Objectives

90%

- 2008 objective: 90%, an increase of 1% from last year's objective

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78%

- 2008 objective: maintain a rating of at least 78%.
  - attract, develop and retain talented people
  - develop high-calibre leaders
  - foster learning and professional development.

51%

- 2008 objective: 51.0%. We are investing in people, processes and technology. In the short term, these investments will negatively affect the efficiency ratio. In the long term, they will produce efficiency benefits.

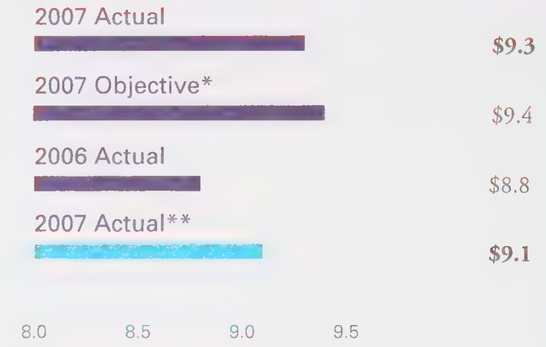
Performance / Financial Sustainability

Outstanding Portfolio
$ in billions

- Financing and Subordinate Financing authorizations topped $2.6 billion.
- The Financing and Subordinate Financing portfolio stood at $9.3 billion. This is the driving force of BDC's financial sustainability.

* Represents new internal objective
Corporate Plan: $9.0 billion

** Excludes BDC Subordinate Financing.



BDC Consulting Revenue
$ in millions

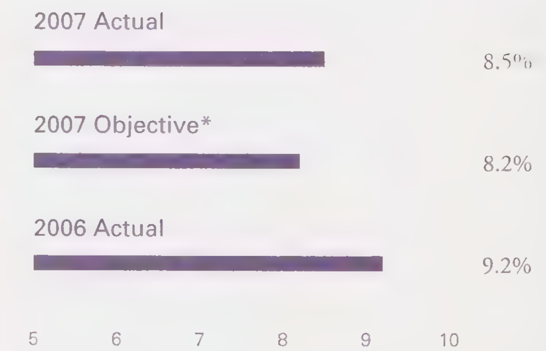
- At $23.5 million, this is 9% higher than last year and above our objective.

* Represents new internal objective
Corporate Plan: $22.0 million.

Return on Common Equity (ROE)

- 8.5%, which exceeds both our objective of 8.2%, and the government's average long-term cost of capital of 4.1%.

* Represents new internal objective
Corporate Plan: 7.5%

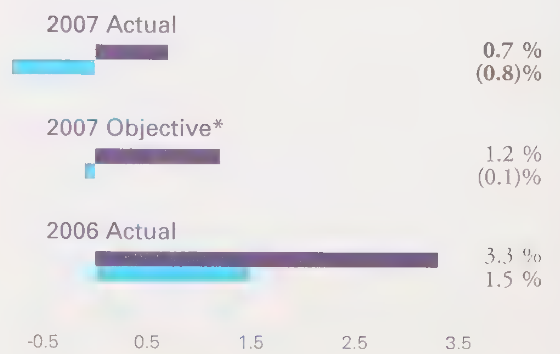


BDC Venture Capital 10-year Internal Rate of Return (IRR)

- The lower fair value of the portfolio, plus limited opportunities for divestitures, affected the IRR for direct and total investments.

■ Direct investments
■ Total investments

* Represents new internal objective
Corporate Plan: 3.1% – direct and 2.0% – total



2008 Objectives

$9.7 B

- 2008 objective: $9.7 billion. Excludes the BDC Subordinate Financing portfolio.

$26 M

- 2008 objective: $26.0 million. A key part of our strategic plan is a greater volume of more diversified consulting services.

7.1%

- 2008 objective: 7.1%, to exceed the government's estimated average long-term cost of capital of 4.4%.

- We will remove this indicator beginning next year because of its questionable relevance as an indicator of our portfolio's performance. BDC has investments in a disproportionately high percentage of young companies. This meant that the IRR was being applied to companies that were too young to generate returns. We are developing a new indicator.

There are more than one million employer businesses in Canada:

97.5%
are small

2.2%
are medium-sized

0.3%
are large

Industry Canada's definition of SMEs: a small enterprise has up to 99 employees and a medium-sized enterprise has 100 to 500 employees.

China is surpassing Canada as the U.S.'s biggest supplier of imports. In 2006, Canadian exports to the U.S. dipped 2% to $358.7 billion.

However, our trade with the rest of the world rose 15% to $80.8 billion. This is the first time in over 10 years that a decline in exports to the U.S. has been more than offset by an increase in exports to the rest of the world.

In general, and compared with most G8 countries, Canada is a healthy place to create and grow a business. Canada continues to enjoy one of the fastest growth rates and highest living standards among industrialized countries. It is the only industrialized country with a fiscal surplus, a declining public debt, and historically low inflation and interest rates.

It is in this relatively positive context that our SMEs are being pushed to adjust to powerful global forces, notably the rising influence of developing nations such as China, India and Russia. The slower U.S. economy and the rising value of the Canadian dollar also affect our SMEs. SME manufacturers, in particular, are starting to move up the value chain and seek global opportunities.

Powerful global forces are obliging Canada's SMEs to become more innovative and more productive.

A resilient economy: Last year, Canada's economy showed resilience in the face of the slowing American economy. In 2006, it grew by 2.7%, helped by a 4.5% rise in consumer spending and a 5.4% growth in the global economy.

Low interest rates: Entrepreneurs continued to benefit from the low cost of borrowing. Short-term interest rates have been at historically low levels for several years and, after rising in early 2006, ended the year at a level slightly below long-term rates. Fixed-term rates remained unchanged from last year.

Profitability: The growth rate of corporate profits slowed to 6.7% after double-digit growth in 2004 and 2005.

A strong Canadian dollar: The value of the Canadian dollar surpassed US$0.90 in 2006 but ended the year at US$0.86, similar to the previous year. However, it is still 40% higher than the 2002 low of US$0.62. A strong dollar makes our manufactured goods more expensive for foreigners to buy but reduces the cost of importing machinery and equipment that enhance productivity. A strong dollar also poses a challenge for Canada's tourism sector.

Business costs: Commodity prices rose again in 2006; crude oil prices ended the year at US$60 a barrel, triple the 2001 low of US$20 a barrel. The cost of industrial materials rose by almost 25%, the largest increase in over 10 years.

These developments increase the costs of producing and transporting goods. It is increasingly hard to pass these costs on to consumers. And global competition makes it impossible for our entrepreneurs to compete on price alone.

One trend does not bode well for Canadian businesses: their weaker productivity.

When we compare ourselves with our biggest, closest market and competitor, the United States, the numbers are clear: our GDP per capita is $42,400, while theirs is $51,600. The difference is $9,200.[1]

This difference means that we are less successful than Americans in adding value to our human, physical and natural resources. According to research, this gap has grown in the last 10 years, despite our economy's relatively strong performance of the past decade.

This relatively low productivity is a weakness of Canada's economic environment. SMEs created and grown in this environment face a higher hill in becoming globally competitive than do SMEs from other, more competitive countries.

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1 Roger Martin, *Agenda for Canada's Prosperity Report on Canada 2007* (Toronto: Institute for Competitiveness and Prosperity, 2007)

leading... with leaders

- 1,700 employees
- 27,000 clients
- Everywhere in Canada

"BDC has financed just about every aircraft acquisition we've made over the past years. When our business had to go through a change of hands, naturally we went to BDC for business transition financing. With their help, we were able to close the deal quickly."

Hugh Kitchen
President
Alkan Air Ltd.
Whitehorse, Yukon

"Thanks to BDC's financing, we launched our lifestyles product line, giving us even more leverage for growth. Evolving from shoes to lifestyle products made us Canada's fastest-growing company last year. We now sell worldwide in more than 35 countries."

Joyce Groote
CEO
Holey Soles Holdings Limited
Vancouver, B.C.

"As a start-up, we were looking for a lender who had real faith in our potential. BDC was the right fit. We offer consulting and operations management services to the sulphur industry. BDC's working capital enabled us to do some rigorous international marketing to expand our business."

John MacDonald
President and CEO
The Brimrock Group Inc.
Calgary, Alberta

"BDC helped us finance plastic manufacturing facilities in Saskatoon, which will ensure we can meet new demand in the U.S. market. We also went to BDC Consulting to implement lean manufacturing practices, and we're definitely seeing results on our production line."

Craig McIntosh
President and CEO
Acrylon Plastics
Winnipeg, Manitoba

"When you're expanding like we are, you need organizations like BDC to help.

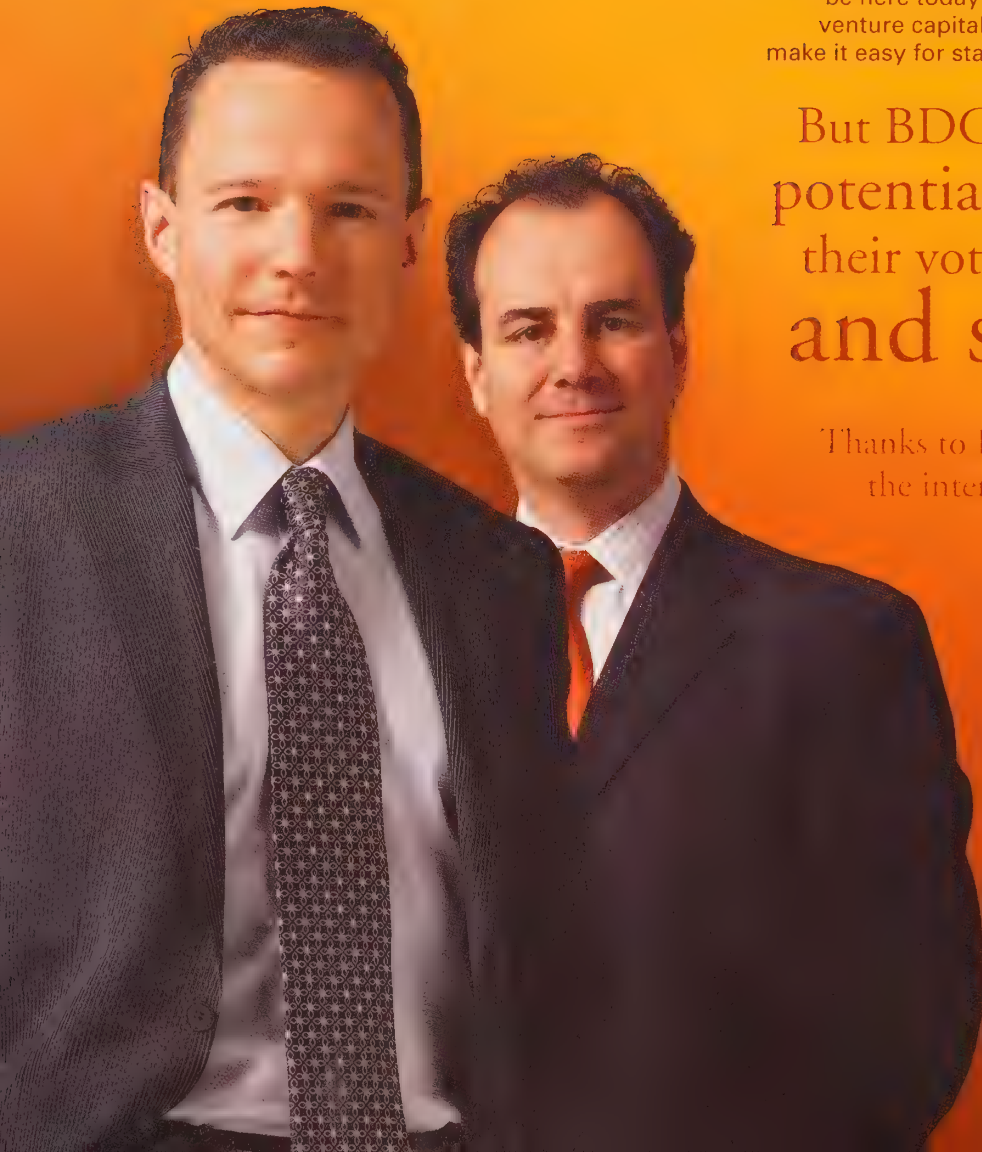
We started out growing herbs and manufacturing products in my kitchen.

Now we are a fully ISO-certified manufacturer of organic herbal health products. BDC helped us finance a new manufacturing facility, equipment and a high-pressure processor, which set trends in our industry and improve the quality of our products."

Nancy Smithers
CEO
NATURALLY NOVA SCOTIA
Dartmouth, Nova Scotia

and

Ed Handler
Senior Manager, Loans
BDC
Halifax, Nova Scotia



"I started this business alone in my basement. Within two years, we were more than 50 people behind the world's first X-ray checkpoint technology that detects potentially threatening objects and liquids. Simply put, we would not be here today if not for BDC's first round of venture capital funding. The market doesn't make it easy for start-ups like us to raise money.

But BDC recognized our potential and gave us their vote of confidence and support.

Thanks to BDC, we also attracted the interest of other investors."

Eric Bergeron
President and CEO
OPTOSECURITY INC.
Quebec City, Quebec

and

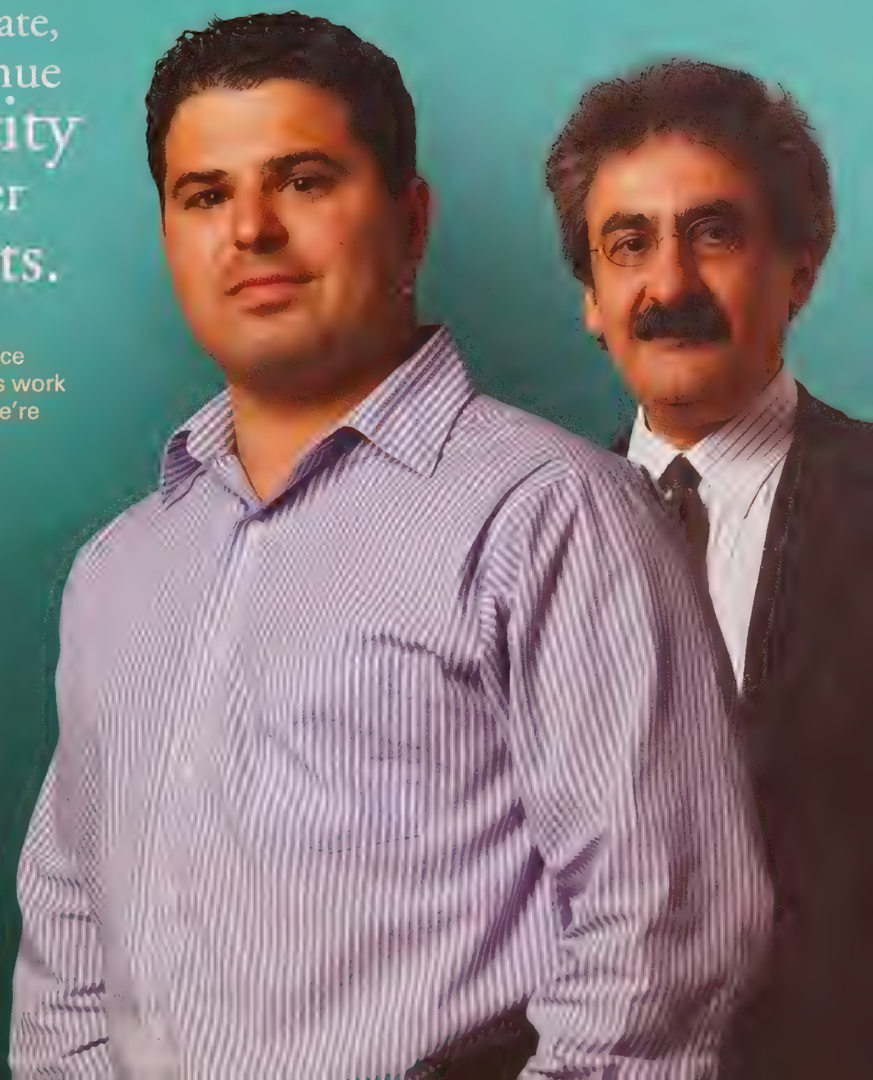
Jacques Dénommée
Director, Venture Capital
BDC Venture Capital
– Advanced Technologies
Quebec

" We are a company that bundles, converts and repackages quality industrial paper for customized needs. Our success depends on being able to move fast to meet our clients' needs.

BDC helped us finance equipment and real estate, so that we can continue to grow capacity and quickly deliver quality products.

We've also relied on BDC's sound advice on lean manufacturing, which helps us work smarter and more efficiently. Today, we're pleased with our healthy growth.

Our future looks bright."



Steve Massis
CEO
GLOBOPRO PAPER INC.
Beamsville, Ontario

and

Francis Sajed
Manager, Major Accounts
BDC
Toronto, Ontario

"It's not just about loans for us.
It's about building a long-term relationship, and that's where BDC shines.

BDC created a financial framework for many of our key capital purchases, such as new equipment and buildings for our trailer manufacturing facilities. We deal with BDC because they really understand what it means to go through both good and challenging times. They've always been there for us, and today our investments continue to make our company more efficient and responsive to our customers' needs."

Gurcan Kocdag
President
DOEPKER INDUSTRIES LTD.
Annaheim, Saskatchewan

and

James Limin
Senior Manager, Loans
BDC
Saskatoon, Saskatchewan

“We offer visitors to Yellowknife the best facility in the world to see the magnificent Aurora Borealis. BDC recognized early on that we had found an exciting niche in the tourism industry. Their financing has been key for our company and enabled us to develop this burgeoning market.”

Don Morin
Owner-operator
Aurora Village
Yellowknife, Northwest Territories

“As one of the largest fish processing companies in Atlantic Canada, continued expansion is on the top of our agenda. BDC’s subordinate financing enabled us to secure working capital and make the vital acquisitions we needed to grow. BDC has always been there for us.”

Bill Barry
President
The Barry Group of Companies
Corner Brook, Newfoundland and Labrador

“As a young, custom millwork company, we went to BDC to finance equipment and property. BDC recognized that we had a strong business plan and gave us the flexibility we needed to take our business to the next level. When your lender shows confidence, it gives you confidence, too.”

Rob Roy
Co-owner
Wood Millers Inc.
Charlottetown, Prince Edward Island

“Human resources management training from BDC Consulting enabled us to better recruit, retain and develop our people. We also got sound advice on implementing lean manufacturing in our business, which ensures we’re maximizing all of our production efforts.”

Alex MacLellan
President and CEO
Atlantic Neon and Plastic Signs
Saint John, New Brunswick

Management's Discussion & Analysis

Foward-Looking Statements

BDC regularly makes written and oral forward-looking statements in its annual report, in press releases and in other communications. These forward-looking statements include statements with respect to objectives and strategies to achieve objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and are subject to inherent risks and uncertainties, both general and specific. These give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed. These factors include credit, market, operational and other risks identified and discussed in the risk management section; interest rate fluctuations; opportunities to complete successful divestitures of investments; and changes in accounting standards, policies and estimates.

Table of Contents

– 1 –
Role, Strategy & Activities

BDC has one client: Canadian entrepreneurs.

We have 1,700 employees serving 27,000 SMEs at 94 branches across the country.

Role

When they succeed, entrepreneurs make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.

In 1995, Parliament identified gaps in the market's provision of services to small and medium-sized enterprises (SMEs). To support entrepreneurs hindered by these gaps, it passed the *Business Development Bank of Canada Act*. The Act created BDC to promote entrepreneurship by providing complementary financing, consulting and venture capital services to SMEs.

In its financing activities, BDC is a complementary lender in the marketplace. We operate where there are market deficiencies to complete the services made available by commercial lenders. And we collaborate with other financial institutions and partners to serve entrepreneurs.

How We Fulfill Our Role

We fulfill our mandate by providing financial and consulting services to entrepreneurs. These services are commercially viable and efficient.

We design and tailor our services to meet SME needs. Our organizational structure mirrors these services: BDC Financing, BDC Subordinate Financing, BDC Consulting and BDC Venture Capital.

BDC is environmentally responsible. Since 1991, we have used an Environmental Risk Policy to guide our decisions. And since June 2006, we have also complied with the *Canadian Environmental Assessment Act*. Our goal is to ensure that we do not fund projects that might cause significant adverse impact on the environment.

BDC has existed, under different names and with evolving public policy mandates, since 1944. To learn more, visit www.bdc.ca.

BDC Financing* Authorized

for the years ended March 31 ($ in millions)

There is a steadily growing demand for BDC's financing services.

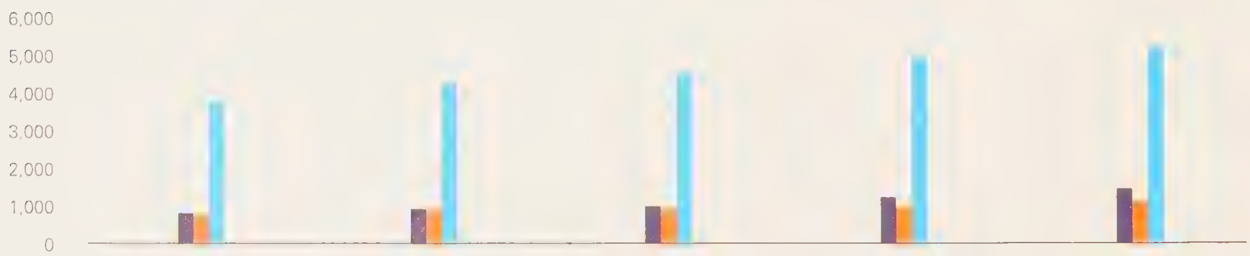
	2003	2004	2005	2006	**2007**
Amount authorized	1,982	2,034	2,230	2,462	**2,586**
Number authorized	6,271	7,212	7,457	8,402	**9,079**

* *Excludes subordinate financing loans and investments.*

BDC Financing Support to Start-Up, Development and Expansion Stage Firms

for the years ended March 31 (number authorized)

Our clients seek financing for business start-up, development and, significantly, expansion.

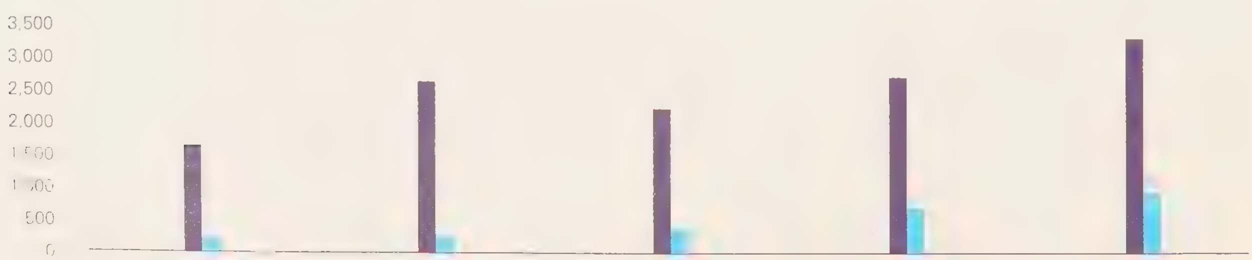


	2003	2004	2005	2006	**2007**
Start-up	809	917	993	1,217	**1,438**
Development	744	901	905	959	**1,123**
Expansion	3,770	4,238	4,501	4,907	**5,145**

BDC Financing Authorized by Primary Loan Purpose

for the years ended March 31 (number)

A growing number of our clients seek working capital to finance growth projects. They are also seeking support for the change in ownership of their firms.



	2003	2004	2005	2006	**2007**
Working capital	1,641	2,618	2,208	2,686	**3,270**
Change of business ownership	228	258	381	698	**923**

We Offer Support For Business Expansion

For businesses that need working capital for fast growth and that do not have the tangible security that conventional lenders require, or for those whose owners are reluctant to dilute ownership in the firm, we offer a hybrid financial instrument that incorporates elements of debt and equity: subordinate financing.

BDC is a national leader in subordinate financing. This position is anchored by our partnership with Caisse de dépôt et placement du Québec (the Caisse), which we renewed this year. This year, BDC Subordinate Financing authorized $108 million (this includes the Caisse portion).

We Offer Support For More Skillful Businesses

Canadian businesses face challenges that range from strategic to operational. BDC Consulting offers affordable, high quality consulting services to help them meet these challenges. These services are an integral part of the value we bring to each client. In fiscal 2007, we started 2,451 consulting mandates. This is a 20% increase from last year.

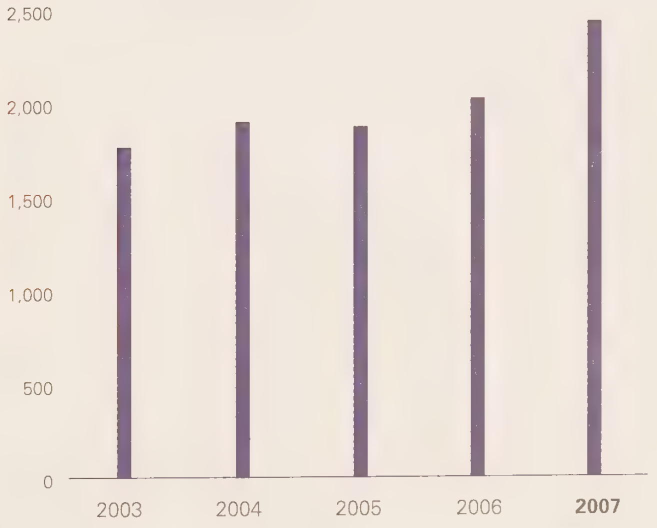
BDC Subordinate Financing Authorized

for the years ended March 31

	2003	2004	2005	2006	**2007**
Amount – BDC portion *($ in millions)*	49	48	36	47	**54**
Amount – Caisse portion *($ in millions)*	–	25	36	46	**54**
Number authorized	55	56	66	104	**112**

BDC Consulting Mandates

for the years ended March 31 (number)



2003	2004	2005	2006	**2007**
1,774	1,909	1,886	2,037	**2,451**

We Offer Support to Commercialize Innovation

BDC Venture Capital supports entrepreneurs who are turning ideas and new technology into attractive products and globally successful companies. We are a Canadian leader in the critically important early stage (including seed) investment phase. In fiscal 2007, 81% of the dollar amount of our direct investments was in early stage firms. This compares with the industry average of 42%.

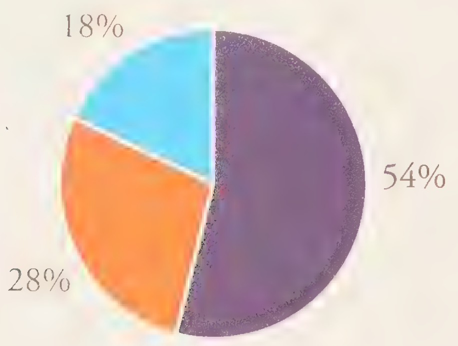
This past year, total seed investments in Canada were $64.3 million. BDC authorized $6.6 million of this total in eight seed ventures.

About 40% of our venture capital portfolio companies originated and developed in universities and labs. These companies need BDC's expertise and long-term commitment.

In fiscal 2007, BDC Venture Capital authorized 68 direct investments totalling $106 million. We also authorized three investment funds for a total of $45 million. We estimate that this $151 million investment leveraged $690 million from other investors.

Number of BDC Venture Capital Direct Investments Authorized Classification by Stage of Development

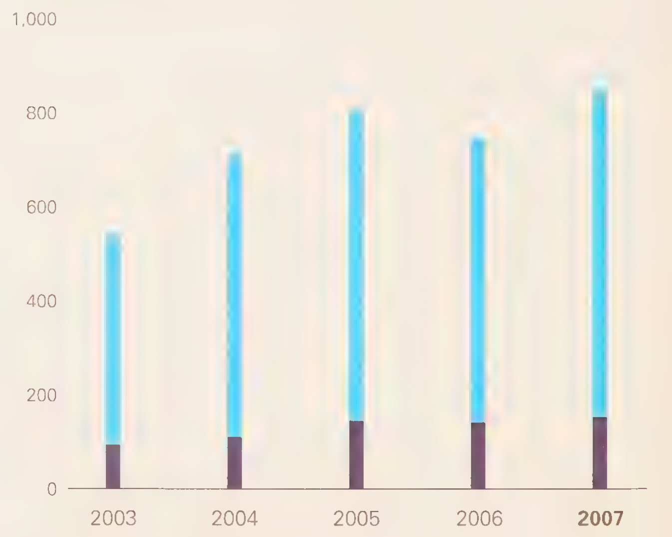
for the year ended March 31, 2007



- Start-up / seed
- Development
- Expansion

Total Value of BDC Venture Capital Projects Financed

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	**2007**
BDC Venture Capital authorized	93	109	143	140	**151**
Other sources of investment (estimated)	446	598	652	598	**690**
Total	539	707	795	738	**841**

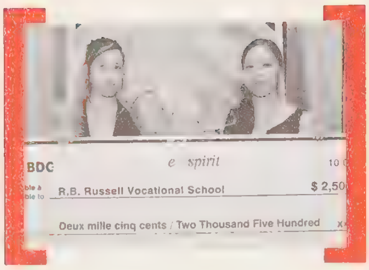
We Reach and Respond to Entrepreneurs in all Parts of Canadian Society

For BDC, diversity means ensuring that our workforce reflects society and that our outreach to clients is as broad and inclusive as possible. This enables us to target services to meet SME needs that vary from community to community, as well as to stimulate would-be entrepreneurs who have come to Canada from all parts of the world. Our reach into ethnically diverse communities is proactive. We use a grass-roots approach, collaborating with local business associations.

Women entrepreneurs lead businesses of all sizes in all sectors. They also enter the SME marketplace at twice the rate of men. Over the past two decades, their number has grown by over 200%. The most important indicator of BDC's support for women entrepreneurs is the fact that they represent about one quarter of BDC's clients. This portfolio is $1.8 billion in committed and outstanding financing and subordinate financing.We have more than 6,600 women clients, twice as many as a decade ago.

At 21 Entrepreneurship Centers across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2007, the Centers authorized $208 million in loans.

We have formal partnerships with more than 200 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. These partnerships enable us to reach entrepreneurs who live near these centres. Using this network, we supported close to 500 entrepreneurs.



Young entrepreneurs lead about 9% of Canadian SMEs. Many of them find it hard to secure financing because they are in a start-up position, have little or no managerial experience and have no proven track record. Over the past five years, we have authorized over $715 million in financing to young entepreneurs across the country.

To foster an entrepreneurial spirit in Canadian youth, BDC celebrates the creativity and business success of young entrepreneurs with awards such as the Young Entrepreneur Awards, a key event during BDC Small Business Week(R). We also support competitions in universities and colleges that promote entrepreneurial and business-planning skills.

We are particularly proud of the success of BDC Enterprize 2007. In this national business plan competition, university students from across the country submitted business plans to compete in regional and national finals. BDC credit and risk experts evaluated and judged the plans. The top three national winners were from Dalhousie University, Simon Fraser University and the University of Manitoba.

We also help create economic development in Aboriginal communities through a grassroots approach called the Circle of Entrepreneurial Success. This strategy delivers loans of $5,000 to $20,000, with terms that vary depending on the cash flow expectations for the project, management training and ongoing mentorship. And to stimulate awareness of entrepreneurship among Aboriginal youth, we offer E-Spirit, an Internet-based Aboriginal youth business plan competition. To date, more than 3,500 students in more than 600 schools have participated in the competition, and some competitors have since graduated and are running businesses based on those plans. We held the E-Spirit 2006 awards ceremony in Quebec City.

BDC's Support for Commercialization: Assessing Our Performance

BDC is active in Canada's venture capital market because entrepreneurs who commercialize ideas into products and services that they sell around the world will, when they succeed, generate an important part of Canada's future prosperity.

The commercialization of research is complex and risky. To turn a discovery into a globally successful company, entrepreneurs must meet a series of challenges, each of which requires financing: determine a commercial application, do market research, build a prototype, produce, distribute and sell. In short, they have to successfully create and manage a company. Success takes several years, millions of dollars and a sequenced range of separate, sophisticated skills. Hence our support.

Last year, the Minister of Industry asked us to commission an external evaluator to assess our venture capital activities and performance. The starting point for this assessment was BDC's 2001 strategy, which entailed a focus on knowledge-based industries, commercialization of research, and seed and early stage financing through direct and indirect investments. (Since 2001, this orientation has been intensified. It has also been backed by injections of capital.)

The assessors found that in terms of investments and efforts, BDC has strongly deployed the new strategy, as well as responded to some challenges the industry is facing:

] a strong contra-cyclical role during difficult times for the industry;

] concentration in provinces where the capital pool is smaller;

] concentration in knowledge-based industries, especially life sciences;

] concentration in early stages and newer leadership role seed and start-up stages;

] growing size of investments;

] a greater number of foreign investors with whom we have negociated large financings;

] larger commitments to private investment funds mainly dedicated to seed and early stages; and,

] efforts to attract directors with more technical and industry experience.

In sum, the assessor found that BDC has a very positive and growing impact on the size of venture capital financings in Canada, as well as on the sought-after presence of foreign investors in these financings. The results are tangible in terms of establishing partnerships, providing leverage, attracting foreign investors and participating in large financings. However, they are not yet tangible in terms of exits and returns. It is still too early to tell.

BDC's Support for Retiring Entrepreneurs

In last year's annual report, we raised the issue of how, as Canada's population ages, many of our small business owners are reaching retirement age without having planned for the change in the ownership and management of their companies. Managed well, business ownership transitions can ensure the company continues to prosper. Unplanned or poorly managed, however, they can cause the company to falter. This imperils the entrepreneur's main retirement asset.

In September 2006, we unveiled our new Business Ownership Transition service. This service provides financing and consulting expertise to help retiring entrepreneurs plan and manage their exits from their businesses.

Our Long-term Public Policy Role: Assessing Our Performance

In last year's annual report, we reported that, in response to the government's stated desire to assert the public policy role of Crown corporations, we are developing performance indicators to assess the long-term fulfillment of our public policy mandate. We plan to use these indicators to track and communicate our public policy accomplishments, as well as to align future strategies with government policies.

The proposed indicators are:

Business Creation

This represents BDC's contribution to the creation of Canadian businesses, as compared to the market benchmarks.

] Over the past five years, about 13% of BDC authorizations went to clients in the start-up phase. Market data shows that approximately 5% of Canadian businesses are start-ups. This suggests that BDC is supporting more than twice as many start-ups as is the market.

Market Leverage

Each dollar lent or invested by BDC leverages private sector sources of financing. Monitoring that activity provides the total value of SME projects backed by BDC.

] At present, our operational data indicates that BDC Venture Capital leverages more than $4 from other venture capitalists for every dollar BDC invests.

Business Survival

BDC works in partnership with entrepreneurs, even in difficult times. The survival rates of BDC start-up clients, compared to industry benchmarks, is better.

] Two-Year Survival Threshold: After the second year of receiving BDC support, only 9% of BDC loans authorized to start-ups were written off and liquidated. According to Statistics Canada research, 25% of firms cease operation before their second birthday.

] Five-Year Survival Threshold: After five years, 67% of BDC start-ups survive, compared to the Statistics Canada industry benchmark of 36%.

Business Growth

One can track the growth of BDC clients, as compared to the SME market at large

] Based on a comparison of internal and external surveys, BDC appears to have twice as many clients who perceive themselves to be in the fast-growth stage than is the case generally for the SME market (28% vs. 13%).

Please note that these indicators are a work in progress and that there are significant limitations to the data available. We are working to develop a measurement system that accurately measures our long-term impacts in the market, and are collaborating with other SME experts to do so. Should we determine that the indicators are less helpful than they might be, we will amend or dispose of them. If we succeed in crafting other indicators of greater usefulness or validity, we will add them.

– 2 –

Key Performance Indicators

We measure our performance against the 2007–2011 Corporate Plan (CP) and internal objectives.

Clients

The first of BDC's key desired outcomes is unique and valued relationships with Canadian entrepreneurs. It is through these relationships that we help them create their businesses and accompany their growth. We use a client satisfaction rating to measure our success.

Every year, we have an external third party do a Client Satisfaction Survey to rate the performance of our client-centred approach.

Client Satisfaction

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
92%	89%	93%	90%

Performance in Fiscal 2007

Overall client satisfaction in fiscal 2007 was 93%. This figure is 1% higher than in fiscal 2006 and 4% above the 2007 objective. This rise was largely due to a 5% increase in the satisfaction rate of BDC Consulting clients and a 1% increase in the satisfaction rate of BDC Financing clients.

Of BDC's new clients, 94% said they were "satisfied" with our service. This percentage has been stable for the last two years. However, new clients' satisfaction rate regarding interest rates has dropped 8% since fiscal 2006. We attribute this decrease to the large availability of capital in the market.

Objective for Fiscal 2008

The objective for client satisfaction in fiscal 2008 is 90%, an increase of 1% from last year's objective. We anticipate a slight decrease when compared to this year's results due to a necessary realignment of our administration fees, which have not changed in many years, to a level that is more in line with current market dynamics.

As a Crown corporation, BDC is obliged to submit its Corporate Plan months prior to the beginning of the fiscal year. Since results can vary in the last few months of the previous year, we sometimes, with Board approval, adjust our performance goals to keep them appropriately challenging. These revised goals become *internal objectives* that we strive to achieve.

Employees

We seek employees whose energy, dedication to our mandate and professional effectiveness will ensure that our clients are well served. We call this trio of characteristics "employee engagement" and foster it by creating a corporate culture characterized by learning and growth.

Employee Engagement

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
78%	78%	80%	78%

Performance in Fiscal 2007

In fiscal 2007, the employee engagement rating rose by 2 points over fiscal 2006. It now stands at 80%. The 2007 figure compares favourably to the objective of 78%. It is a direct result of the efforts of leaders throughout BDC to put valuable feedback from employees to good use. Across the country, focusing on engagement continues to be one of the most effective ways to create and sustain a dialogue that creates a collaborative work environment for all.

In 2007, MediaCorp Canada Inc. included BDC in its prestigious book, *Canada's Top 100 Employers*, which recognizes employers with outstanding workplace environments. To compile this list, the MediaCorp editorial team invited more than 10,000 organizations to apply. More than 1,500 employers provided detailed information about their operations, human resources practices, charitable efforts and community involvement. From these, MediaCorp chose 100 organizations – including BDC – as the best.

Objective for Fiscal 2008

The objective for fiscal 2008 is to maintain at least a 78% rating for employee engagement. To do so, BDC will continue to:

- Attract, develop and retain engaged employees: BDC must attract and retain talented people in a highly competitive labour market. Our talent management strategy and human resources management practices aim to build the capabilities of a diverse workforce, as well as continue expanding the professional and cultural diversity of our employees.
- Develop effective leadership: Good leaders hire, train and coach their employees and foster an inspiring work environment where employees can grow. We will continue to develop high-calibre leaders through our leadership programs.
- Foster learning and development: We support self-motivated learning and development through a series of educational and technical programs.

Efficiency

BDC seeks to be as efficient as possible. To measure our efficiency, we use a ratio of operating and administrative expenses as a percentage of net interest and other income (includes realized gains or losses on disposals of subordinate financing investments). The lower the ratio, the greater the efficiency achieved.

Efficiency Ratio

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
48.9%	49.7%	50.2%	51.0%

Performance in Fiscal 2007

The efficiency ratio in fiscal 2007 was 50.2%, compared to the new internal objective of 49.7% (the CP objective was 51%). Net interest and other income exceeded the internal objective of $504.0 million by $0.5 million, but expenses were higher than the objective by $2.9 million.

Two important factors affected the fiscal 2007 efficiency ratio compared to fiscal 2006: a $31.9-million increase in net interest and other income, due to growth in the Financing and Subordinate Financing portfolio; and an increase of $22.2 million in operating and administrative expenses, mostly due to:

- a $16.2 million rise in salaries and benefits other than pension to support the increased volume of activity. During the year, staffing in the Financing and Subordinate Financing group increased by 120 employees. This increase comes from our objective of spending more time with clients, the opening of six new branches and our increased support to smaller businesses via small dollar size loans;
- a $3.3 million increase in pension costs due to a reduction in the discount rate applied to the pension obligation;
- a net increase of close to $2.7 million in other expenses, for marketing, training and various other expenses.

Objective for Fiscal 2008

The efficiency ratio target for 2008 is 51.0%. Although we expect a number of initiatives will improve BDC's efficiency over time, current investments in the areas of people, processes and technology will negatively affect the ratio in the short term.

In fiscal 2007, we launched the Financing Value Project to enhance BDC's value to its clients by eliminating non-value activities and leveraging the use of technology to improve efficiency. This strategy emphasizes the client relationship. Value Project efforts and technology investments will increase efficiency in the long term but will negatively affect it in the short term.

Financial Sustainability:

Outstanding BDC Financing and Subordinate Financing Portfolio

BDC must be profitable to grow as it fulfills its public policy mandate. BDC's principal revenue-generating asset is its Financing and Subordinate Financing portfolio. The portfolio must yield a sufficient rate of return, net of credit losses, that covers operating expenses and generate sufficient earnings and capital to support future growth of all BDC activities.

Outstanding Portfolio *($ in billions)*

This includes BDC Subordinate Financing			This excludes Sub Fin	
F2006 Actual	F2007 Objective	F2007 Actual	F2007 Actual	F2008 Objective
$8.8	$9.4	$9.3	$9.1	$9.7

Performance in Fiscal 2007
The gross closing portfolio rose from $8.8 billion to $9.3 billion. This is an increase of more than $500 million, or 5.7%. At $9.3 billion, the gross Financing and Subordinate Financing portfolio was the driving force of BDC's financial sustainability. It was slightly below the internal objective of $9.4 billion, due mostly to lower disbursements than anticipated, but was significantly better than the CP objective of $9.0 billion.

Objective for Fiscal 2008
As of fiscal 2008, this indicator will exclude the BDC Subordinate Financing portfolio. For fiscal 2008, BDC's objective for the Financing portfolio is $9.7 billion, 6% higher than the $9.1 billion in fiscal 2007.

BDC Consulting Revenues

BDC Consulting is one of our market differentiators. It offers customized consulting solutions for the complex challenges faced everyday by Canadian entrepreneurs. Consulting activities are an integral part of BDC's value proposition to the client.

Consulting Revenue *($ in millions)*

F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
$21.6	$23.0	$23.5	$26.0

Performance in Fiscal 2007
Consulting revenues rose 9% in 2007 to reach $23.5 million. This figure is slightly higher than the internal objective of $23.0 million. The CP objective was $22.0 million.

Objective for Fiscal 2008
The 2008 revenue objective for BDC Consulting is $26.0 million, an increase of 11% from 2007. A key part of our strategic plan is to diversify our consulting services across six major service offerings. We offer Canadian SMEs services in business planning and management, innovation, human resources, market development, operating efficiency and transition.

BDC Venture Capital 10-Year Internal Rate of Return (IRR)

BDC plans to remain a major player in the Canadian venture capital industry. The venture capital industry uses the IRR to measure the success of funds or vintages of investments. IRR is the annual discount rate at which the values of cash flows from the portfolio yield the original investment. Targets for fiscal 2007 included BDC Venture Capital 10-year IRR for direct investments, as well as for total investments.

BDC Venture Capital 10-Year IRR

	F2006 Actual	F2007 Objective	F2007 Actual
Direct investments	3.3%	1.2%	0.7%
Total investments	1.5%	(0.1)%	(0.8)%

Performance in Fiscal 2007
In fiscal 2007, the lower fair value of the portfolio, plus the limited opportunities for divestitures, affected the IRR for direct and total investments.

Objective for Fiscal 2008
Measuring the performance of BDC Venture Capital is difficult because of the long-term and high-risk nature of such transactions. The IRR is an industry standard used for comparative purposes. However, the nature of BDC's early-stage and patient capital role means that comparing our IRR to the industry's is not an appropriate or useful key performance indicator. For this reason, BDC has removed the BDC Venture Capital IRR from its list of key corporate performance indicators for future years.

Return on Common Equity (ROE)

BDC does not provide grants or contributions, nor does it receive annual appropriations from Parliament. To remain sufficiently profitable to sustain growth, our objective is to generate a return on common equity at least equal to the government's average long-term cost of capital.

Return on Common Equity

	F2006 Actual	F2007 Objective	F2007 Actual	F2008 Objective
Total BDC	9.2%	8.2%	8.5%	7.1%

Performance in Fiscal 2007
BDC's total ROE was 8.5%. This ROE was better than our new internal objective of 8.2%, and the CP objective of 7.5%. The $26.0-million depreciation in the fair value of the Venture Capital portfolio decreased the ROE downward.

The 8.5% ROE exceeded the government's average long-term cost of capital of 4.1% for the year.

Objective for Fiscal 2008
The ROE objective is 7.1%. This is higher than the government's average long-term cost of capital for 2008 estimated to be 4.4%. It assumes a net income of $123.0 million.

– 3 –
Risk Management

In fulfilling our mandate, we underwrite risks by offering solutions that are not commonly available in the market place.

Introduction

Risk is an inherent feature of the financial sector. BDC focuses on meeting entrepreneur needs that the market is not readily serving, and meeting those needs usually requires higher-risk loans or investments.

As required by our Shareholder, we are commercially viable. Commercial viability enables us to deliver our mandate, grow and invest in the services we offer to entrepreneurs. It also enables us to avoid asking Parliament for support during slow economic times. Specifically, we are required to generate a long-term return on common equity that is at least equal to the government's average long-term cost of capital.

For parliamentarians and public servants, it is important to know that BDC uses its strong capital base, plus sophisticated risk management systems, to manage several specific kinds of risk, notably credit risk in the loan portfolio. We use a sophisticated risk management framework that is based on the principles of autonomy and commercial viability.

Like other banks, BDC must maintain a solid capital base. We currently hold capital that exceeds regulatory obligations. This money we have in equity dictates the amount of money we can use to support our clients. In general, $1 in equity permits us to lend $10 to an entrepreneur. That is traditional lending. Alternatively, $1 would permit us to support an entrepreneur who has a higher-risk proposition with $4. Finally, $1 in equity would permit us to support an entrepreneur who needs venture capital with a $1 investment in his or her initiative. Treasury Board sets these standard asset-to-equity ratios (10:1, 4:1 and 1:1) at levels designed to provide adequate cover for losses.

Our mandate points us toward higher-risk projects. We provide our clients with as much support as we can within our given capital requirements.

– Financial Risk –

Loan Credit Risk

Loan Portfolio Concentration Risk

Market Risk – Venture Capital Portfolio

Treasury Risk

[Risk Model]

– Operational Risk –

Human Resources

Process Management

System Management

Legal

Compliance

How We Manage Risk: Enterprise Risk Management (ERM)

Enterprise Risk Management (ERM) is a framework policy we use to ensure that we manage risk methodically and consistently in all of our planning, decision-making and operational activities. ERM precludes us from doing this in an uncoordinated or piecemeal fashion.

The first step is to detect and identify risk. BDC does constant, radar sweep-like scans of its risks.

BDC's business unit managers do the first scans. Every year, they identify their top business risks. For each, they write an action plan to mitigate, avoid or accept it. They send these plans to Head Office, with an estimate of the money or resources they would need to implement them.

At Head Office, the ERM Group compiles, quantifies and assesses the business units' risks in a comprehensive report for the Senior Management Committee. The report summarizes the risks and identifies the ones that might affect BDC as a whole. The ERM Group then works with each business unit to prioritize and implement the action plans.

Every year, BDC assesses its top risks. We analyze the likelihood of each risk happening and its potential impact on BDC's business objectives. We also assess the measures being used to mitigate it. Employees from a cross-section of departments identify, assess and rank the risks. Senior managers develop action plans for the top risks and discuss them with the Board of Directors.

Every three months, senior managers send the Board an updated ERM report that outlines the performance of the financing, subordinate financing and venture capital portfolios, their adherence to BDC's risk tolerance limits and the status of the risk indicators being monitored.

BDC has an internal ERM Committee to identify, assess and quantify ongoing risks and opportunities in our day-to-day operations. ERM Committee members come from a cross-section of disciplines and BDC departments. Their mandate is to develop and implement action plans that span various business units.

Credit Risk in the Loan Portfolio

The most important risk for BDC to manage is the credit risk derived from its commercial term lending portfolio. This is the largest part of BDC's portfolio. It is widely diversified and pan-Canadian. We hold the loans to maturity, as we do not use market instruments such as credit derivatives or portfolio securitization practices to offset this risk.

BDC's managers use a sophisticated monitoring system that constantly scans both new loans and the portfolio of existing loans. Every week, it gives in-depth analyses and warnings of trends that might require quick corrective action. It also gives managers information to determine the causes of problems: details specific to the industry sector, geographic location, branch, loan size or loan type.

The benefit of this system is that it puts information into the hands of the unit managers who are responsible for monitoring risk, while keeping senior managers abreast of all developments.

Every day, BDC manages the quality of its individual loans by cultivating a solid working relationship with its entrepreneur clients, monitoring their financial conditions, and monitoring adherence to policies and controls. Every three months, our senior managers meet formally to review trends, concentrations, risk indicators and loan quality assessments, and to adjust marketplace strategies so that they meet the business risk levels BDC considers acceptable. After these quarterly meetings, they discuss the findings and courses of action with the Credit/Investment and Risk Committee (CIRC) of the Board of Directors.

There are two benefits of this constant flow of precise information. One is information for greater responsiveness at the local business unit level. The second is sharpened managerial oversight. The two allow BDC to confidently take greater risks to support entrepreneurs.

BDC has a committee of senior employees who scrutinize higher-risk credit decisions. The Credit Risk Committee (CRC) comprises senior employees appointed by the President and has a quorum of three members. Their role is to ensure that these higher-risk decisions benefit from the knowledge, skills and experience of senior lenders. The CRC's principal responsibility is to adjudicate credit within prescribed limits.

For larger transactions, it makes recommendations to the CIRC for approval. It also reviews any transactions involving parties related to or referred by members of Parliament, senators or fellow board members.

Two teams, the Internal Audit Team and the Portfolio Risk Management Team, do monthly reviews of loan quality. Each review examines a sample of loans to ensure that the employees who approved them respected BDC's policies, performed due diligence and did proper risk assessments. We use the results of these reviews to train employees, to continually improve their performance.

The Internal Audit Team also examines branch operations to determine loan portfolio credit risk and to ensure they are complying with BDC's policies and procedures. The team alerts management to any negative trends in operational or procedural risks that it identifies, and managers ensure that the employees responsible take corrective action. We use all of these findings to identify opportunities to improve processes or provide more training to reduce our operational risk exposure.

Loan Credit Risk is the risk that BDC will lose money when a client defaults on a loan. Recall that our mandate requires us to lend to a high-risk segment of the Canadian commercial loan sector. We base our decisions on our experience with other, similar clients and use policies, procedures and risk assessment tools to help us make these decisions. We assess all loans by using a risk-rating framework that helps us to properly price our loans according to the risk taken and our loss experience for similar transactions. The risk rating provides the basis for understanding the degree of risk in our underwriting and management of all loans in our portfolio.

We regularly provide reports to senior managers and the Board: formally every quarter and informally to managers, as required. We decentralize our underwriting decisions and subject them to independent review and audit. All of our managers are trained to assess overall credit risk.

Loans Portfolio Concentration Risk is the risk that BDC will lose money when several borrowers in the same industry or area default at the same time. We diversify our loan portfolio by industry sector and geographic region, as well as by stage of development. When appropriate, we set portfolio limits to manage the associated credit risk on an aggregate basis. This way, we manage the impact of correlations between exposures and protect BDC against the potential negative impact of events that can have economic consequences, such as pandemics or international trade disputes. The portfolio risk management team proposes limits to the Senior Management Committee, which approves them or recommends them to the Board for its approval.

The Portfolio Management Information System allows us to quickly identify trends by providing weekly information on five risk indicators for new loans and nine performance indicators for the portfolio as a whole. Risk indicators are disaggregated by industry, geographic sector, business solution, loan size, loan purpose or any combination thereof. Alert reports enable managers to focus attention on corrective action, as needed.

The Portfolio Outlook Committee analyzes the portfolio performance indicators and recommends strategies, as required. This committee comprises representatives from different parts of BDC, including field operations, market development, portfolio risk management and credit risk management. Their breadth of expertise ensures we have a balanced, integrated view of market and risk strategies.

Market Risk in the Venture Capital Portfolio

Early-stage venture capital investments are highly risky. This is their nature. They are also a public policy imperative: Canada's knowledge-based economy needs them. The long-term recipe for national prosperity must include globally successful companies that specialize in highly innovative sectors such as life sciences and information technology.

Venture capital investments take patience. It takes years, millions of dollars and a sequenced range of separate, sophisticated skills to turn an innovative idea or technology into a profitable company. Most of the time, it is only when the innovation has been turned into a profitable company that investors can sell their stake to make a profit. This means that, initially, venture capital investments consume more capital than they generate.

The profit we make on our venture capital investments is affected by the timing of our divestments. This timing is dictated by the trends and vagaries of the financial markets, as well as the presence and appetite of buyers.

We mitigate risk in our venture capital portfolio by using a rigorous diligence process to prepare for all of our investment decisions. We investigate the firm's products and services before we invest, and favour breakthrough products and services that are unique or that have clear advantages over existing ones. We also assess the experience, expertise and commitment of the firm's managers. Finally, we study the size and dynamics of the market in which the firm is operating, as well as any competing firms that exist or that might develop in the foreseeable future. Where we deem it prudent, we hire outside experts to independently validate our findings.

We also lower the risk of our venture capital investments by applying conservative valuations, co-investing with other venture capital investors and regular monitoring. We divest our successful venture capital interests when the investee companies are taken over by other companies, or when they go public through an initial public offering. We study market conditions and sell our shares in phases in order to avoid distorting the market.

We use a rigorous process to authorize our venture capital investments. The Internal Venture Capital Committee, composed of senior managers, reviews all investment transactions and approves those within the committee's delegated limits. For larger transactions, the Committee makes recommendations to the CIRC for approval.

Operational Risk

Operational Risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or external market events beyond our control. BDC has internal control systems and processes for its business transactions. A comprehensive set of policies and procedures governs how we process information, administer loans, manage human resources and carry out our activities. When we review our top risks, we include the action plans that govern operational risks.

We review written-off accounts and identify any operational risks associated with loan operations. By compiling these risks, we can modify our internal control procedures, if necessary.

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster, and regularly reviews and tests its contingency planning. In 2007, we developed a detailed plan to prepare for and respond to a flu pandemic crisis.

BDC manages the risks associated with technology and telecommunications failures by replacing and upgrading computer systems and equipment. We have security and control procedures to respect laws and privacy standards, and to ensure that we manage our information accurately and efficiently. We regularly test these systems to ensure they are reliable.

Credit Risk is the risk that BDC will lose money when a client defaults on a loan. This kind of risk is inherent in new loan authorizations, as well as in our large portfolio of already-approved loans. It is also inherent in our treasury operations. When we expect payment from a party with whom we have entered into a financial transaction, there is a risk that he or she will not be able to make this payment. To manage this risk, we diversify our exposure and set limits on our transactions.

Market Risk is the risk that BDC will lose money when the value of assets, liabilities or other financial instruments – such as interest rate derivatives or currency hedges – varies because of changes in market conditions. To manage this risk in venture capital, we use a rigorous selection process and work closely with our investee companies. Because market risks in Treasury are due to external events beyond our control, we use sophisticated financial instruments to keep risk exposure within approved limits.

Operational Risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or external market events beyond our control. To mitigate this risk, we use internal control systems, policies and procedures. We monitor these at various levels in our organization and verify them by internal audit.

Environmental Risk is the risk that BDC will lose money due to an environmental hazard, including hazards that were not foreseen or properly managed. We have a well-defined process to identify and evaluate environmental risk at the time we authorize a loan. We also have a monitoring process to ensure that we continue to identify and appropriately manage these potential risks.

Treasury Risk Management

The risks inherent in BDC treasury operations are monitored daily at several levels within BDC, in compliance with established policies. The Asset and Liability Committee meets quarterly to review treasury operations and to ensure that we are responsibly managing our financial risks. It also reports quarterly to the Board of Directors.

Treasury Risks are risks that arise as a result of BDC issuing debt in the market to fund its lending operations. BDC uses its treasury risk framework to identify, measure, control and mitigate treasury risks, which include liquidity risk, market risk, counterparty credit risk, operational risk, and legal and regulatory risk.

Liquidity Risk is the risk that BDC will be unable to honour all contractual cash outflows as they become due.

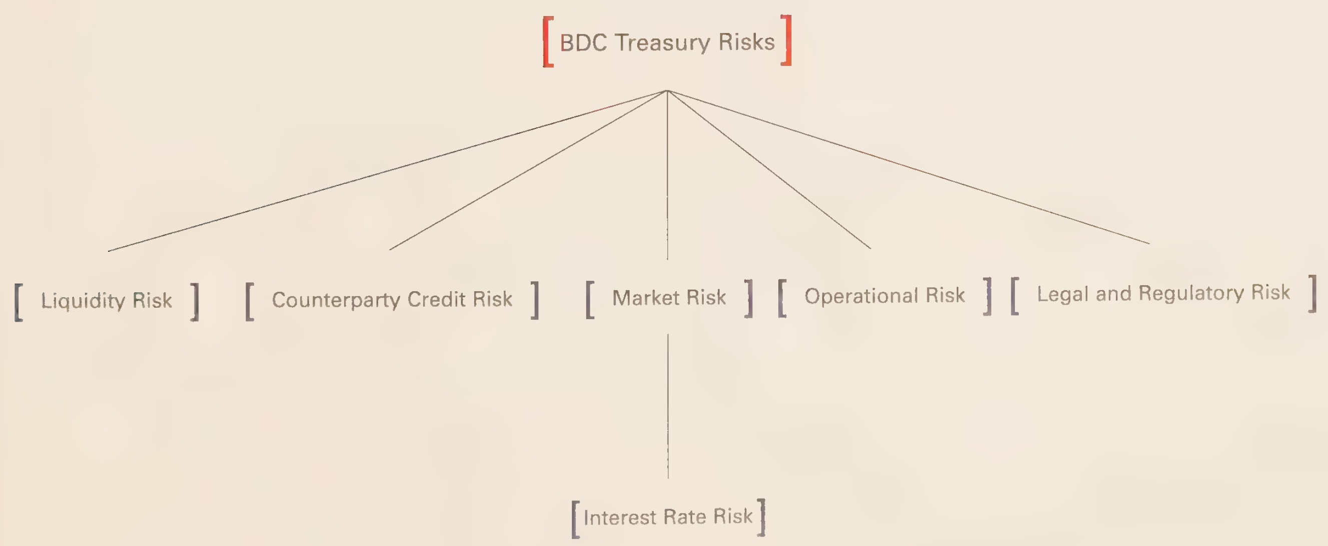
The primary responsibility of BDC's treasury operations regarding liquidity management is to ensure that BDC is able to meet its payment obligations in a timely, cost-effective way. We have a well-defined liquidity and investment management policy, which includes liquidity limits that the Treasury Risk Management Unit (TRMU) monitors daily. BDC's policy also gives clear guidelines for issuing institutions, all of which have credit ratings of "A" or better, as assessed by an external rating agency. This approach ensures that our short-term investments are placed in liquid assets that we can access when we need to.

Market Risk is the risk that BDC will lose money if the value of its assets, liabilities or other financial instruments varies because of changes in market conditions.

BDC funds its operations by issuing commercial paper and mid- to long-term notes. BDC is permitted to issue debt in domestic and foreign markets, using various types of currencies and structures, as long as we eliminate exposure to foreign currency or foreign interest rate fluctuations, as required by the Department of Finance. We complete all hedging transactions with approved high-quality counterparties, all of which have credit ratings of "A-" or better, as assessed by an external rating agency.

Interest Rate Risk is the risk that market interest rate fluctuations will lead to a loss in the value of financial instruments. We make loans with both floating and fixed interest rates, try to ensure that our borrowing strategies match these types of loans wherever possible, and use derivative instruments to manage any gaps. The graph on the following page shows BDC's asset and liability position as of March 31, 2007, after taking into account derivative transactions.

The Treasury Risk Policy guides the proactive management of market risk exposure arising from potential adverse movements in interest rates. The purpose of the policy is to minimize the impact of these variations on net interest income and BDC's economic value. Parameters have been set on the sensitivity of the net interest income projected over the next 12 months when subject to a parallel movement of the Canadian yield curve of 200 basis points.



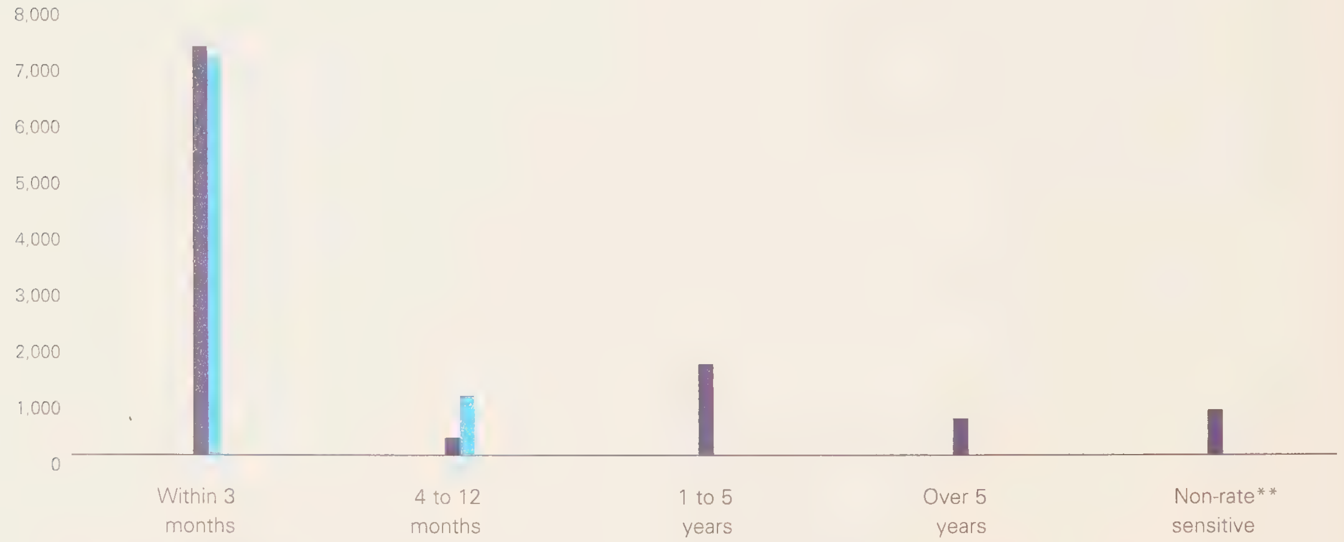
Issuer/Counterparty Risk is the risk that a counterparty's credit rating will be downgraded or that the counterparty will default, resulting in a loss in the value of outstanding financial instruments or a potential financial loss, if the counterparty cannot meet its contractual obligations.

To mitigate the credit risk inherent in treasury activities, the TRMU identifies and measures BDC's credit risk exposure with issuers and derivative counterparties. The TRMU also ensures that BDC enters into prescribed derivative transactions with counterparties that have an acceptable credit rating, with whom an International Swaps and Derivatives Association (ISDA) master agreement is duly signed. The ISDA agreement includes a credit support annex, which defines a limit over which a collateral transfer is required from the counterparty to bring the value of its credit risk exposure back under the threshold amount. Finally, the TRMU ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have acceptable credit ratings.

Legal and Regulatory Risk arises when BDC transacts with a counterparty that lacks the legal or regulatory authority to engage in the transaction, when changes to laws or regulations adversely affect the value of a set of transactions, or when derivatives documentation – such as an ISDA master agreement – is missing or inappropriate.

Treasury Interest Rate Sensitivity Asset & Liability Gap

as at March 31, 2007 ($ in millions)



	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate** sensitive
Assets*	7,280	313	1,630	654	835
Liabilities	7,158	1,070	0	0	0

* *Before allowance for credit losses.*

** *Excludes derivative-related assets, other assets, derivative-related liabilities and other liabilities.*

– 4 –

Accounting & Control Matters

Critical Accounting Policies & Estimates

BDC's significant accounting policies are summarized in Note 2 to the Consolidated Financial Statements. These policies are considered critical because they require significant estimates in applying such policies. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies and estimates are reviewed and that they are applied consistently from period to period. Critical accounting policies include those related to the allowance for credit losses, the fair value of investments, and pension and other employee future benefits.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable credit-related losses in the financing portfolio. The allowance for credit losses comprises the specific allowance and the general allowance. Management determines the specific allowance by identifying and determining losses related to impaired loans, and determines the general allowance by assessing probable existing losses in the performing portfolio.

BDC determines the allowances based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make certain assumptions and judgements, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on the relevance of historical experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends in relation to impairments, write-offs and recoveries, portfolio characteristics and composition; and (vii) determining the current position in the economic and credit cycles. Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level.

BDC maintains its allowance for credit losses at an adequate level, taking into consideration the relatively high-risk profile of its financing activities.

Note 2 to the Consolidated Financial Statements details the methods used to calculate the allowance for credit losses.

Fair Value of Investments

In accordance with generally accepted accounting principles (GAAP), investments held by investment companies within the consolidated group are stated at fair value. Fair value is the price an unrelated knowledgeable party would pay for the investment. BDC derives its approach to fair value measurement from investment industry guidelines.

To determine fair value, BDC uses the following approaches: (i) market-based methodologies, such as the quoted share price or the price of recent investments; (ii) discounted earnings or cash flow approaches, when the company has maintainable profits or maintainable positive cash flows; or (iii) a liquidation- or asset-based method, when the company is in financial distress.

Fair value is management's best estimate and involves significant assumptions, such as the capitalization rate or the discount rate. It may not reflect the ultimate realizable value of the investment.

Note 2 to the Consolidated Financial Statements details the methods BDC uses to estimate the fair value of its investments.

Pension and Other Employee Future Benefits

BDC provides defined benefit pension plans and other benefit plans to eligible employees after their retirement. These plans include a registered pension plan, supplemental pension plans and other plans, such as plans for post-retirement and post-employment benefits.

Actuaries calculate the pension and other employee future benefits expense using various assumptions determined by management. These assumptions include discount rates, expected rates of return on assets, health care cost trends, inflation rates, projected salary increases and mortality rates. Actual experience that differs from the actuarial assumptions used will affect the amount of benefit obligation, and the expense could increase or decrease significantly in future years.

Notes 2 and 20 to the Consolidated Financial Statements present the key assumptions used and describe their sensitivity.

Future Changes in Accounting Policies

Financial Instruments

In 2005, the Canadian Institute of Chartered Accountants (CICA) published three new accounting standards: *Comprehensive Income; Financial Instruments: Recognition and Measurement;* and *Hedges*. These standards, which BDC will apply starting April 1, 2007, are summarized below.

Comprehensive Income

Section 1530 of the CICA Handbook, *Comprehensive Income*, introduces a new statement that will be added to BDC's Consolidated Financial Statements entitled "Statement of Comprehensive Income." Comprehensive income consists of net income plus "Other comprehensive income." "Other comprehensive income" includes fair value changes on financial instruments classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. "Accumulated other comprehensive income" will be presented separately in shareholder's equity.

Financial Instruments – Recognition and Measurement

Section 3855, *Financial Instruments: Recognition and Measurement*, gives guidance on recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The new standard requires that all financial assets be classified as either held for trading, held-to-maturity, available-for-sale, or as loans and receivables. Financial liabilities must be classified as held for trading or not held for trading.

Hedges

Section 3865, *Hedges*, establishes stringent accounting requirements for hedges. Using this guideline, BDC will recognize any hedge ineffectiveness immediately in income.

Transition

On April 1, 2007, BDC will recognize changes in the carrying value of financial instruments and related deferred balances arising from BDC's adoption of these new standards in its opening retained earnings balance and opening "accumulated other comprehensive income." BDC is determining the impact of adopting these standards will have on its Consolidated Financial Statements, based on recently issued transitional guidance. The transition amounts that will be recorded in the opening balances on April 1, 2007, are not expected to be material.

Pension and Other Employee Future Benefits

In March 2007, the Accounting Standards Board published an exposure draft of proposed revisions to section 3461 of the CICA Handbook, *Employee Future Benefits*. Under the proposed revisions, an entity would recognize the funded status (difference between plan assets and obligations) of all its defined benefit plans on its balance sheet. It would also measure the plan assets and obligations at the balance sheet date, and recognize changes in the funded status in comprehensive income in the year in which the changes occur. The recognition and related disclosure provisions would be effective for BDC in fiscal 2008. The measurement date provisions would be effective for fiscal 2009.

As per the new rules, all overfunded plans would be aggregated and recognized as an asset, while all underfunded (and unfunded) plans would be separately aggregated and recognized as a liability on the Consolidated Balance Sheet, with the net amount recorded as an opening adjustment to "Accumulated other comprehensive income". As of March 31, 2007, BDC estimates the net underfunded amounts related to the registered pension plan, the supplemental pension plans and other plans to be $146 million.

Controls & Procedures

To be proactive and to abide by best corporate governance practices, BDC launched its Internal Control Certification (ICC) Project in fiscal 2006. The ICC Project objectives are to enhance financial and anti-fraud controls, and to ensure readiness to meet a control certification regime. The definition, planning and scoping phases are complete.

BDC expects to complete the next phase of the ICC Project, focusing on disclosure controls and procedures, in early fiscal 2008. This phase entails establishing a disclosure policy and a disclosure committee; reviewing the existing certification process; doing an inventory of disclosure items; and documenting key disclosure processes and controls. Disclosure controls and procedures are designed to provide reasonable assurance that BDC has gathered all relevant information and reported it to management so as to allow timely decisions on disclosures.

BDC expects to complete the final phase of the ICC Project, focusing on internal control over financial reporting, at the end of fiscal 2009. This phase includes three types of controls: entity-level controls, process-level controls and information technology general controls. Internal control over financial reporting is designed to provide BDC with reasonable assurance that its financial reporting is reliable and that it has prepared its financial statements in accordance with Canadian GAAP.

– 5 –

Analysis of Financial Results

We compare our financial performance to last year's, and measure it against the 2007–2011 Corporate Plan (CP) objectives and internal objectives.

Lines of Business

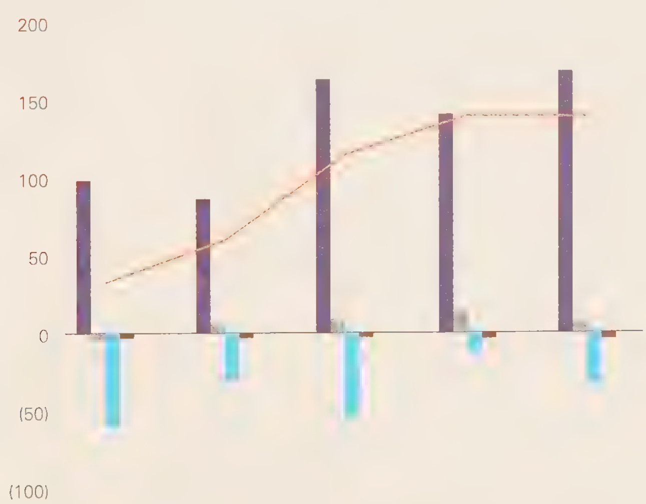
In 2006, BDC reported on three business lines: Financing, Venture Capital and Consulting. Starting in 2007, to enhance the clarity of financial analysis, the Financing business line was broken into two groups: Financing, which includes loans, and Subordinate Financing, which includes mostly investment-type financing.

Consolidated Net Income

Consolidated net income for fiscal 2007 was $138.0 million, almost the same as the $138.2 million recorded last year. The gross Financing portfolio grew by 5.8%, from $8.6 billion to $9.1 billion. Given the overall quality of the portfolio, the provision for credit losses amounted to only $67.9 million, compared to $88.1 million in fiscal 2006. That explains most of the increase in Financing income, from $141.1 million last year to $168.0 million this year.

BDC Net Income

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	**2007**
BDC Financing*	98.6	86.7	163.7	141.1	**168.0**
BDC Subordinate Financing	(4.1)	5.8	8.8	13.7	**7.9**
BDC Venture Capital	(59.5)	(30.3)	(56.1)	(12.8)	**(33.6)**
BDC Consulting	(3.1)	(3.1)	(2.9)	(3.8)	**(4.3)**
Total net income	31.9	59.1	113.5	138.2	**138.0**

* *Excludes BDC Subordinate Financing*

Income from Subordinate Financing was $7.9 million, lower than the $13.7 million recorded in fiscal 2006, mainly due to $7.3 million in unrealized fair value depreciation, versus an appreciation of $1.5 million in fiscal 2006.

Despite an increase in its portfolio, Venture Capital recorded a loss of $33.6 million, compared to a $12.8-million loss in fiscal 2006. Although the $26.0-million change in unrealized depreciation of investments was comparable to last year, dispositions of investments did not trigger any net gains in fiscal 2007.

Dividends

BDC declared dividends of $21.6 million in fiscal 2007, $12.1 million related to fiscal 2006 results, the remainder on preferred shares. During fiscal 2007, BDC paid dividends of $20.8 million to the Government of Canada.

Performance Against Objective

Consolidated net income for fiscal 2007 reached $138.0 million. That compares well to the CP objective of $123.0 million and internal objective of $134.0 million. Venture Capital results were about $38 million below objective, the difference being offset by the better-than-planned performance of Financing, Subordinate Financing and Consulting.

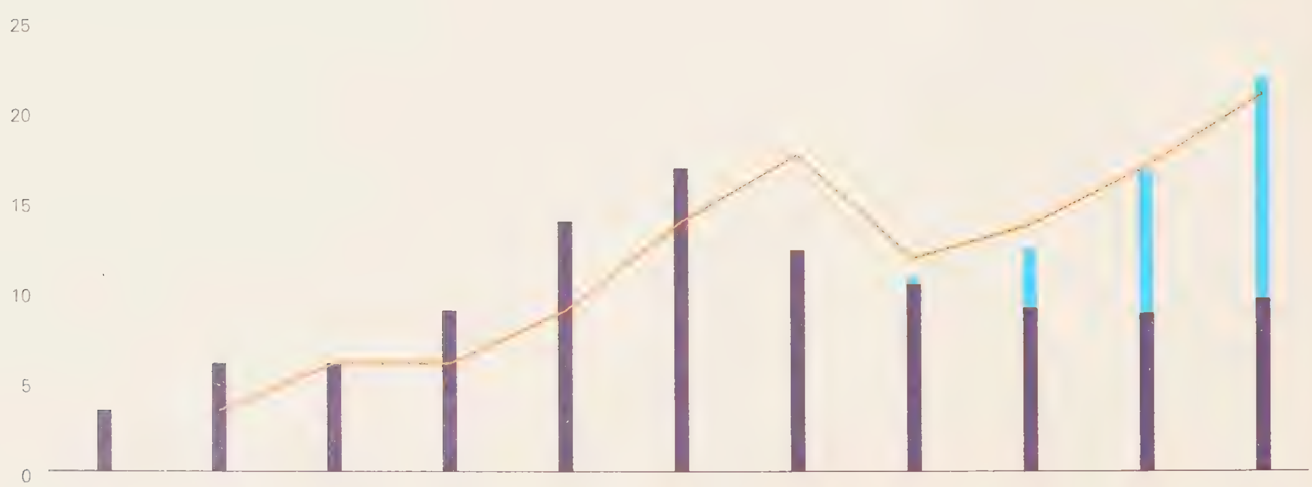
Outlook for 2008

We anticipate a consolidated net income of $123.0 million. Based on our actual financial performance in fiscal 2007, we declared, after year-end, a dividend on common shares of $12.0 million. This we will record and pay in fiscal 2008.

In addition, we project a $9 million dividend on preferred shares. This we will declare in fiscal 2008.

Dividends

for the years ended March 31 ($ in millions)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	**2007***
Preferred declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.3	9.0	8.7	**9.5**
Common declared	–	–	–	–	–	–	–	0.4	3.3	7.8	**12.1**
Total dividends declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.7	12.3	16.5	**21.6**
Total dividends paid	–	3.4	6.0	6.0	8.9	13.8	17.5	11.8	13.6	16.8	**20.8**

* *In addition, based on BDC's fiscal 2007 performance, common dividends of $12.0 million were declared after March 31, 2007 and will be paid and recorded in fiscal 2008.*

BDC Financing

During fiscal 2007, BDC started analyzing results for BDC Financing separately from those for BDC Subordinate Financing. This approach was warranted by the increasing size of the portfolio and income, as well as the variability of Subordinate Financing ventures.

Financing Portfolio

Driven by demand for BDC's specialized loan solutions, the closing portfolio for BDC Financing before allowance for credit losses went from $8.6 billion to $9.1 billion, an increase of over $500 million or 5.8%. The average portfolio for the year increased by 7.6%. The largest contributing factor to this growth was disbursements of $2.4 billion. The payment and prepayment rate was 21.7% of opening outstanding portfolio, 0.5% higher than last year.

Clients can choose either a floating or a fixed rate for their loans. BDC borrows the funds on the Canadian and global money markets, which determine its cost of funds. This cost, in turn, becomes the foundation of the rate BDC charges its clients, along with factors to cover its operating expenses and the risk of each individual loan. As shown in the graph at lower left, 72% of the performing portfolio is composed of floating rate loans.

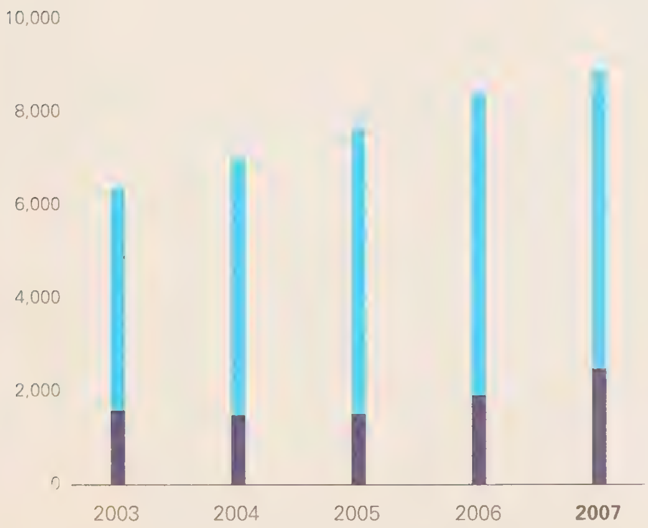
Net Interest and Other Income

Net interest income of $448.5 million reflected interest income less interest expense on borrowings. It also included $41.4 million of interest earned on short-term investments and securities. Other income of $28.5 million mainly comprised fees charged to borrowers. Net interest and other income totalled $477.0 million, which was $27.4 million or 6.1% higher than last year.

This $27.4 million increase was the net result of an increase of $34.1 million due to portfolio growth and a decrease of $6.7 million due to a decrease in margin since fiscal 2006. Net interest and other income margin expressed as a percentage of the average portfolio was 5.36%, compared to 5.43% in fiscal 2006.

Performing Portfolio

as at March 31 ($ in millions)

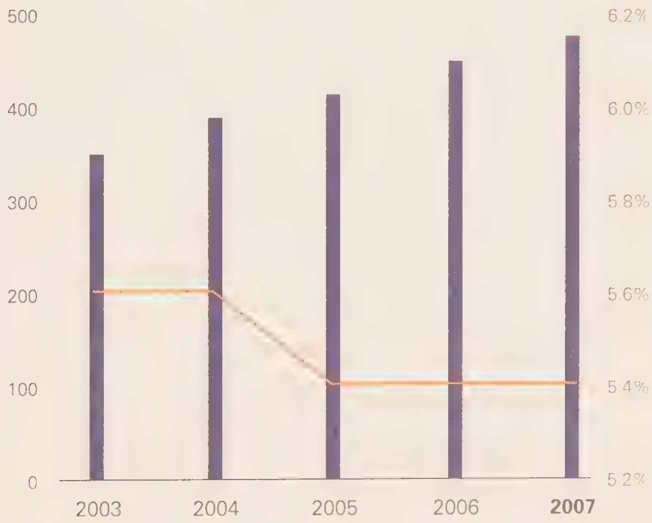


	2003	2004	2005	2006	2007
Fixed rate portfolio	1,580	1,478	1,500	1,902	**2,464**
Floating rate portfolio	4,741	5,508	6,117	6,426	**6,378**
Total performing portfolio	6,321	6,986	7,617	8,328	**8,842**

Excludes subordinate financing loans and investments.

BDC Financing Net Interest & Other Income

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	2007
Net interest and other income	349.9	389.0	413.5	449.6	**477.0**
As a % of average loan portfolio	5.59%	5.58%	5.45%	5.43%	**5.36%**

Excludes subordinate financing loans and investments.

Provision for Credit Losses

Credit conditions remained favourable in fiscal 2007. BDC recorded a specific provision for credit losses of $67.9 million and no general provision. This expense represented 0.8% of the average loans portfolio, compared to 1.1% last year. In fiscal 2006, the specific provision was $61.4 million and the general provision $26.7 million, for a total provision for credit losses of $88.1 million.

The most significant factor influencing the provision for credit losses is the level of impaired loans. When loans default, they are classified as impaired, and an amount equal to the net exposure is recorded as a specific provision and added to the specific allowance. Loans write-offs reduce the specific allowance, once it is determined that all possible recoveries have been made from the distressed debtor. Impaired loans as a percentage of the portfolio declined from 3.5% to 3.1% between fiscal 2006 and fiscal 2007. Write-offs and other adjustments totalled $60.1 million, versus $65.1 million last year.

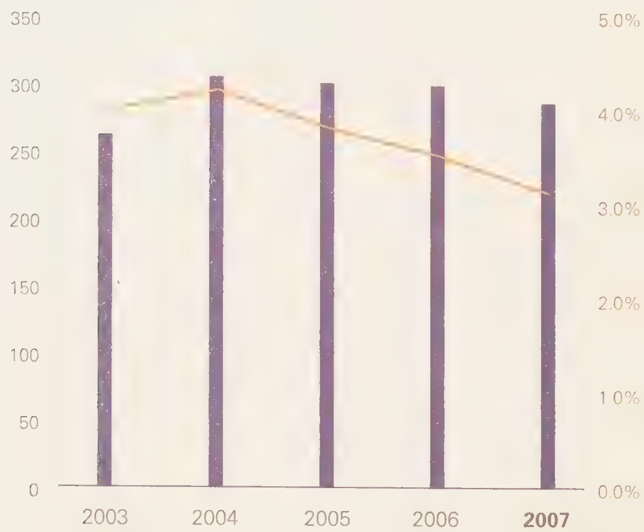
BDC maintains the cumulative allowance for credit losses at a level that reflects its long-term loss experience. The allowance totalled $505.5 million, versus $497.3 million a year ago. It represented 5.5% of the loan portfolio outstanding at year-end, compared to 5.8% in fiscal 2006. This decline was due mainly to improved credit quality in the performing loan portfolio and lower levels of impaired loans. The general allowance remained adequate at $399.2 million, the same amount as last year.

Operating and Administrative Expenses

Operating and administrative expenses totalled $241.1 million, compared to $220.4 million last year, a 9.4% increase. Salary costs rose by close to $14.8 million, or 12.5%, mainly because BDC hired new employees to support growth. In particular, BDC opened six new branches during the year to reach under-served communities. Pension costs increased by $3.2 million, or 23.8%, due to a reduction in the discount rate applied to the pension obligation. Remaining expenses increased by only $2.7 million, or 3.1%.

Impaired Portfolio

as at March 31 ($ in millions)

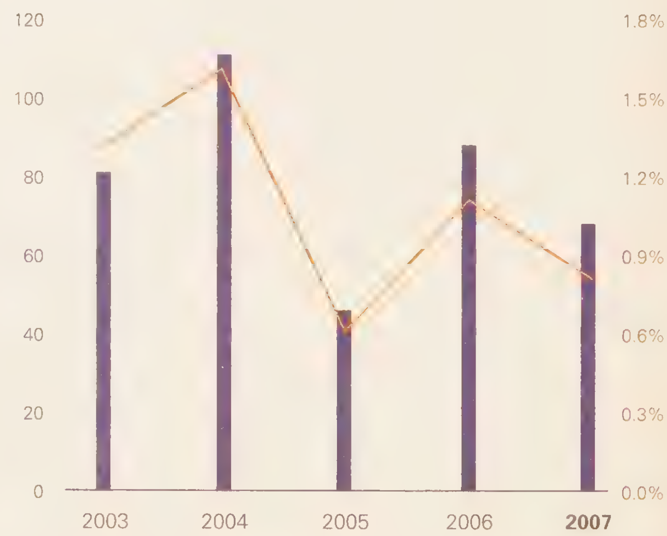


	2003	2004	2005	2006	2007
Impaired portfolio	263	306	301	299	**286**
Impaired portfolio as a % of loan portfolio	4.0%	4.2%	3.8%	3.5%	**3.1%**

Excludes subordinate financing loans and investments.

Provision for Credit Losses

for the years ended March 31 ($ in millions)



	2003	2004	2005	2006	2007
Provision for credit losses	80.6	111.4	46.4	88.1	**67.9**
As a % of average loan portfolio	1.3%	1.6%	0.6%	1.1%	**0.8%**

Excludes subordinate financing loans and investments.

Income from Financing

BDC must generate sufficient returns, net of dividends to the Shareholder, to increase its capital base. This capital base supports expanded future lending activities and allows BDC to maintain the requisite asset-to-capital ratio prescribed by the Treasury Board of Canada Secretariat.

Income from Financing reached $168.0 million in fiscal 2007, $26.9 million higher than the $141.1 million recorded in fiscal 2006. This increase was essentially due to lower provision for credit losses in fiscal 2007.

Performance Against Objective

The $9.1 billion portfolio was slightly below the internal objective of $9.2 billion, due to lower disbursements, but above the initial CP objective of $8.9 billion. The actual provision expense of $67.9 million was much lower than both the internal and CP objectives of $112 million.

Total operating and administrative expenses were $2.0 million higher than the internal objective, mainly due to the net effect of a higher number of employees and lower pension costs. Pension costs dropped compared to objectives due to higher-than-expected returns on pension plan assets.

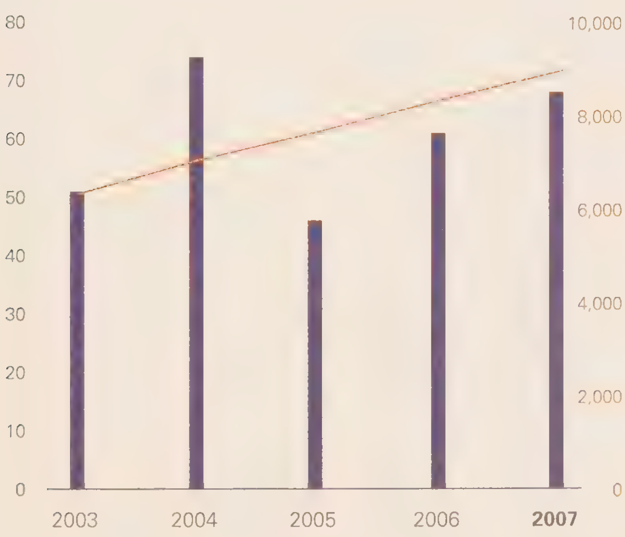
Financing income of $168.0 million in fiscal 2007 was above both the internal objective of $133.1 million and the CP objective of $117.0 million.

Outlook for 2008

We project continuing favourable economic conditions and steady demand for BDC services in fiscal 2008. The gross Financing portfolio is expected to grow by 6% to reach $9.7 billion in 2008. This growth should push net interest and other income to $503.0 million, an increase of 5.5% in fiscal 2008.

Specific Provision for Credit Losses

for the years ended March 31 ($ in millions)

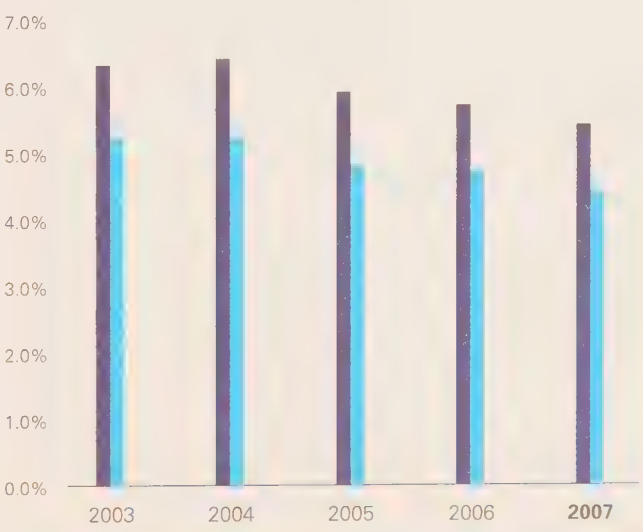


	2003	2004	2005	2006	2007
Specific provision for credit losses	50.9	74.4	46.4	61.4	**67.9**
Average loan portfolio	6,258	6,976	7,595	8,275	**8,902**

Excludes subordinate financing loans and investments.

Allowance for Credit Losses

as at March 31 (percentage)



	2003	2004	2005	2006	2007
Total allowance as a % of loan portfolio	6.4	6.5	6.0	5.8	**5.5**
General allowance as a % of performing portfolio	5.3	5.3	4.9	4.8	**4.5**

Excludes subordinate financing loans and investments

We expect the credit environment to remain stable in 2008. Accordingly, we project the 2008 provision for credit losses will be $124.0 million. This figure would be a significant increase from actual results in fiscal 2007 but would be more in line with historical loan loss experience.

Operating expenses will increase by 6.6% to $257.0 million, due to higher compensation expenses and higher premises costs, mainly due to investments made in new branches in 2007 and higher pension costs. Income from Financing is therefore expected to be $122.0 million.

BDC Subordinate Financing

The Subordinate Financing portfolio is growing. However, it includes a declining portfolio that was underwritten prior to the 2003 agreement with the Caisse de dépôt et placement du Québec (the Caisse).

Subordinate financing investments are hybrid instruments that combine elements of both debt and equity financing. They go to mature businesses to support specific growth projects. The Canadian subordinate financing market is a niche market in which BDC is active. In fiscal 2004, the Caisse and BDC each agreed to invest $150 million over three years in a joint partnership fund called AlterInvest Fund L.P. This fund has been fully committed. In November 2006, the Caisse and BDC set up a second fund, AlterInvest Fund II L.P., to invest an additional $330 million.

Since 2003, BDC's activity in subordinate financing has taken place via these funds. BDC acts as the general partner. In fiscal 2006, BDC started reporting subordinate financing investments at fair value.

Subordinate Financing Portfolio

Consolidated Subordinate Financing net portfolio assets grew 3.1% in fiscal 2007, from $143.9 million to $148.3 million. Net portfolio assets under management went from $226.7 million to $255.8 million.

Income from Subordinate Financing

At $13.8 million, net interest income from Subordinate Financing in fiscal 2007 surpassed last year's results by $3.0 million, mostly due to variable interest premiums. Realized net gains on disposition of investments and other income totalled $13.7 million. They included gains and losses on divestitures, fee income and management fees.

Change in unrealized depreciation or appreciation shows net fair value changes in subordinate financing investments. In fiscal 2007, a $7.3 million depreciation of investments was recorded, compared to an appreciation of $1.5 million last year.

Performance Against Objective

Income from Subordinate Financing of $7.9 million in 2007 was much higher than the $2.4 million objective. The difference was mostly due to higher-than-expected interest income as a result of variable interest premiums.

Outlook for 2008

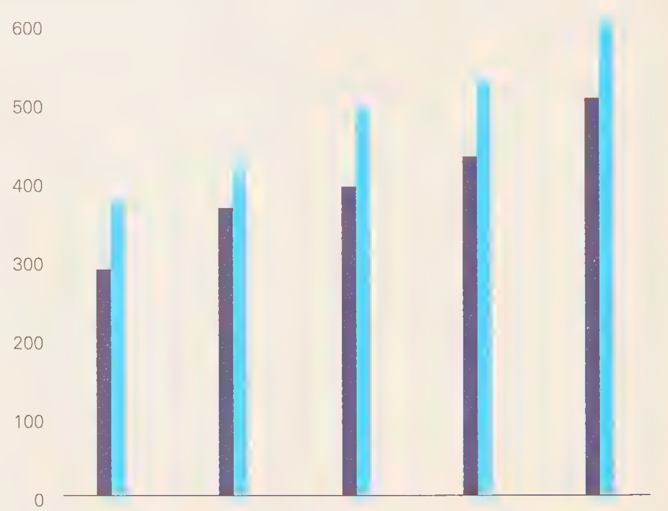
This type of financing will remain enticing for clients who wish to support growth, invest in intangible assets or complete successful business ownership transitions. BDC's share in the portfolio is expected to grow by 6% to $157 million in 2008, generating an income of $5 million.

BDC Venture Capital

BDC Venture Capital addresses market gaps that hinder the creation and development of groundbreaking, technology-based businesses. BDC invests in companies directly or via investment funds. In line with its mandate, BDC invests in enterprises that may reasonably be expected to prove successful. Venture capital assets are held through BDC Capital Inc. and have been measured at fair value since 2006.

Valuation of BDC Venture Capital Total Investments

as at March 31 ($ in millions)



	2003	2004	2005	2006	**2007**
Fair value	287.6	366.0	393.2	431.4	**505.1**
Cost	373.3	416.6	491.5	525.6	**601.2**

Venture Capital Portfolio

The fair value of the portfolio grew from $431.4 million in fiscal 2006 to $505.1 million in fiscal 2007. The growth came from disbursements of $133.4 million, net of dispositions and fair value movements of $59.7 million. Of the total portfolio, BDC has invested $40.5 million through 14 investment funds, and $464.6 million directly in businesses.

Loss from Venture Capital

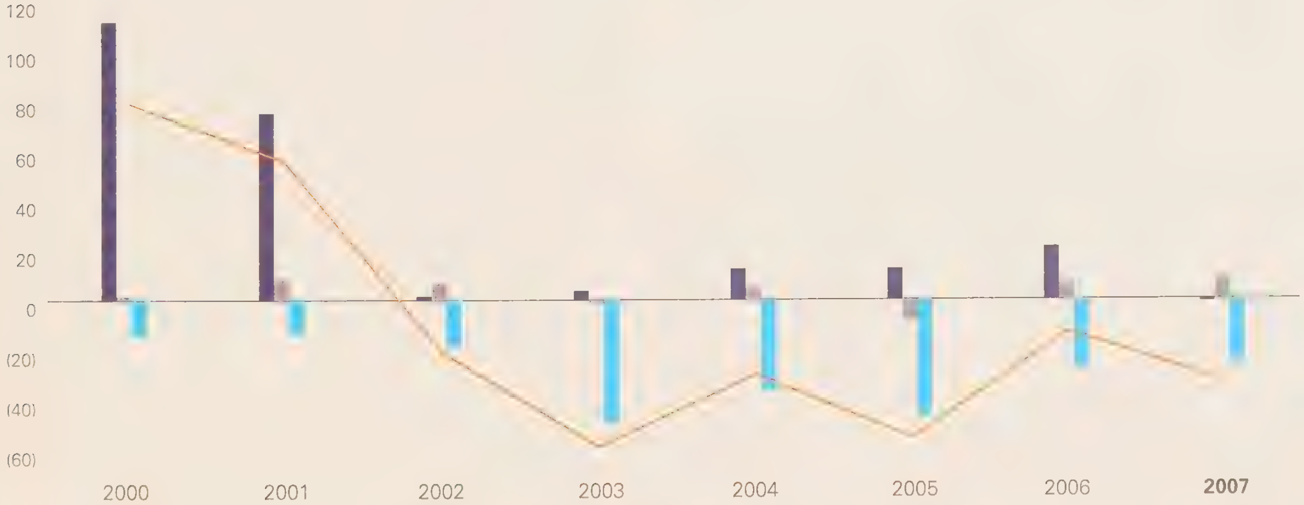
Venture Capital's success depends on gainful divestitures of individual investments, which are subject to prevailing market conditions and the fair value measurement of its investments. Accordingly, financial results may be volatile and will vary from year to year. Management believes that the investments will, in aggregate, succeed in the long term. However, the Canadian venture capital industry has been less stable than its U.S. counterpart since 2001, in terms of investment activities and delays in showing good returns.

The BDC Venture Capital portfolio has grown in the last seven years. The portfolio (at cost) has almost doubled since 2003. BDC Venture Capital has been growing its portfolio in accordance with a strategy in the areas of knowledge-based industries and commercialization of research. This strategy implies focusing on seed and early-stage companies and was underscored by capital injections from the Shareholder. Due to the relative youth of recent investments and unfavourable market conditions, BDC Venture Capital has suffered losses in the last six years.

In fiscal 2007, BDC Venture Capital recorded a loss of $33.6 million, versus a loss of $12.8 million last year. In fiscal 2007, divestitures were again low, both in number and in value, due to limited exit opportunities in the market. Net losses on disposal of investments included $13.8 million in gains and $15.0 million in losses, consisting of sales or write-offs. In fiscal 2006, one account generated a gain on sale of

BDC Venture Capital Operations

for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	2004	2005	2006	**2007**
Realized net gains (losses) on disposals of investments	112.7	75.8	1.7	3.8	12.7	12.7	21.6	**(1.2)**
Other*	1.6	8.4	7.0	(1.7)	4.9	(8.0)	6.9	**8.3**
Write-down of investments / unrealized depreciation (2006-2007)	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	(47.4)	(27.7)	**(26.0)**
Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	(56.1)	(12.8)	**(33.6)**

* *Includes interest, dividends and management fees. Also includes unrealized gains / losses on temporary investments up to 2005*

close to $16 million, making it a large contributor to the total net gains of close to $21.6 million that year. Interest, dividends and other income in fiscal 2007 totalled $8.3 million, which included $4.3 million in interest earned on liquidities.

Change in unrealized depreciation of $26.0 million comprised net depreciation in fair value of $32.9 million since March 2006 and net reversals of fair value following dispositions of investments of $5.5 million. It also included an appreciation of $1.4 million on forward contracts. This $1.4 million reflected the unrealized gain on foreign exchange contracts that BDC entered into to hedge foreign exchange risk in the U.S. dollar portfolio.

Performance Against Objective

The loss from Venture Capital of $33.6 million was significantly higher than the CP objective income of $6 million and the internal objective income of $4 million. The loss was higher for two reasons: realized income was lower, due to limited exit opportunities; and reductions in fair values were greater, due to the large proportion of investments from more recent years. Finally, fair value of such investments is volatile, difficult to measure and difficult to predict.

Outlook for 2008

This type of investing requires a long-term commitment, particularly as BDC invests in seed and early-stage enterprises. BDC is a patient shareholder and believes that the future holds positive prospects.

BDC is committed to supporting its successful clients. In fiscal 2008, we expect activity to continue at a good pace, as thriving investments invariably need additional rounds of investment for expansion or commercialization. We regularly review the status of the portfolio to concentrate efforts on potential winners, so that we can add value to investee companies and attract additional investments from other investors to support their growth. The fair value of investments should reach $559 million in fiscal 2008, with more successful exits helping generate a break-even income.

BDC Consulting

BDC Consulting offers managerial support to SMEs and entrepreneurs at a price they can afford. As such, rather than pursue profitability, it seeks to bring value to its clients. BDC started 2,451 Consulting mandates in fiscal 2007, an increase of 20.3% over last year. BDC Consulting helps SMEs address a wide range of challenges, including growth, operations management and strategic business planning. In fiscal 2007, the average mandate size of $10,000 was below the fiscal 2006 average of $10,800, due to changes in product mix, especially in the Quebec and Atlantic regions. There were more innovation mandates and fewer operational efficiency mandates.

Loss from Consulting

The two primary financial indicators for BDC Consulting, mandates and revenues, were ahead of fiscal 2006 results. Consulting revenues are generated as mandates are performed. Consulting revenues reached $23.5 million in fiscal 2007, 9% ahead of fiscal 2006.

At $4.3 million, the loss from Consulting was $0.5 million higher than the loss in fiscal 2006. After completing the CP objective, management – with the concurrence of the Board of Directors – approved a $3.0 million investment to support a Consulting growth strategy. Of the $3.0 million, $1.4 million was incurred during 2007. As a result, operating and administrative expenses increased from $25.4 million in fiscal 2006 to $27.8 million in fiscal 2007. Key components of this strategy include improving business processes and roster management, hiring and training employees, and developing consulting solutions.

BDC chooses to keep access to its consulting services affordable for SMEs because of the value these services bring to the entrepreneur managing his or her business.

Performance Against Objective

Revenues of $23.5 million were 2.3% ahead of the internal objective. At $4.3 million, the loss from Consulting was $1.7 million better than the internal objective of a loss of $6.0 million. The CP showed a loss of $3.0 million.

Outlook for 2008

BDC will continue to implement its strategic four-year plan, launched in fiscal 2006, to extend its reach into more Canadian markets and diversify its service offerings. We are entering fiscal 2008 with a very encouraging sales pipeline, higher than it was at the same time last year. Our revenue target is $26 million, for a net expected loss of $4 million.

Balance Sheet

In fiscal 2007, total assets increased by $492.7 million, or 4.8%, from fiscal 2006, mainly in the loans portfolio.

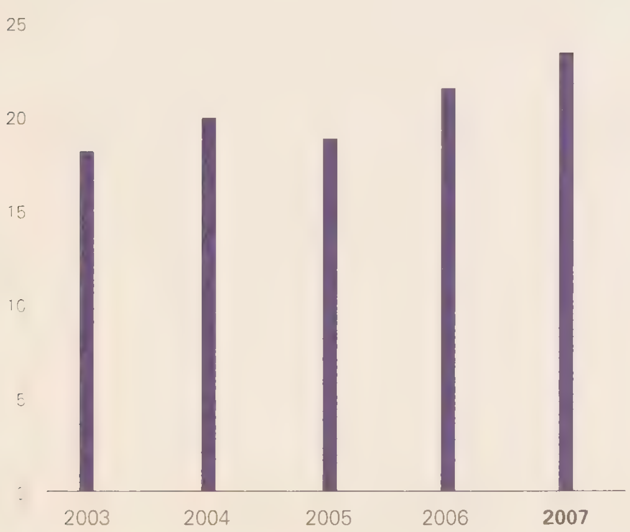
BDC holds cash, cash equivalents and securities in accordance with its liquidity and investment management policy. These liquidities ensure funds are available to meet client needs. They totalled $929.1 million in fiscal 2007.

Loans, net of allowance for credit losses, were the largest asset on the balance sheet. This portfolio increased by $492.8 million, or 6%, from fiscal 2006. Disbursements were less than expected, but the allowance for credit losses increased by only $8.2 million, due to favourable economic conditions.

Subordinate financing loans and investments increased by $4.4 million, or 3%. The fair value of venture capital investments grew by $73.7 million, or 17%.

BDC Consulting Revenue

for the years ended March 31 ($ in millions)



2003	2004	2005	2006	**2007**
18.2	20.0	18.9	21.6	**23.5**

Borrowings

as at March 31 ($ in millions)

	2003	2004	2005	2006	**2007**
Liquid assets	794	865	903	930	**929**
Portfolios*	6,591	7,323	7,966	8,705	**9,276**
Borrowings	6,174	7,181	7,288	7,876	**8,228**

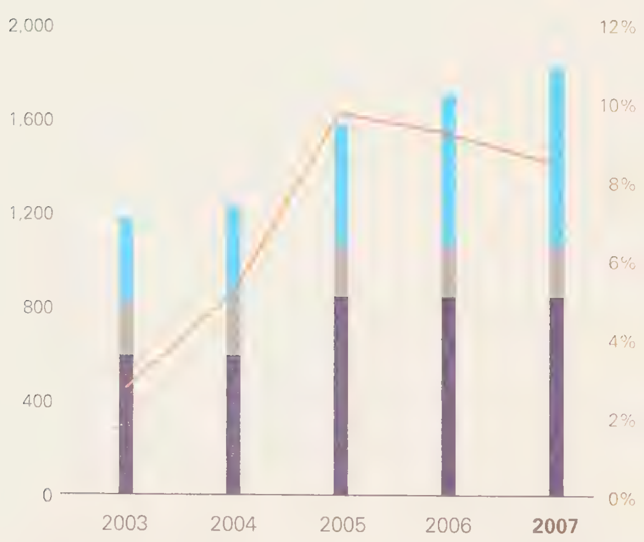
* *Includes net loan portfolio and investments*

Derivative-related assets of $442.4 million and derivative-related liabilities of $530.3 million largely offset each other. They generally reflected interest accrued, either receivable or payable, and unrealized gains and losses on derivative instruments. Other assets of $122.7 million included an accrued benefit pension asset of $100.7 million, while other liabilities of $142.8 million included an accrued benefit pension liability of $106.7 million.

At March 31, 2007, portfolios and liquidities of $10.2 billion were funded by borrowings of $8.2 billion and total equity of $1.8 billion. Borrowings in short-term and long-term notes increased by 4.5% in relation to the overall growth in portfolio assets of 6.6%, the remainder being financed mostly by higher equity. Equity consisted of $1.1 billion in paid-up capital and $0.7 billion in retained earnings.

Total Shareholder's Equity

as at March 31 ($ in millions)



	2003	2004	2005	2006	2007
Common shares*	586.2	586.2	836.2	836.2	**836.2**
Preferred shares	230.0	230.0	230.0	230.0	**230.0**
Retained earnings	353.8	402.3	503.4	625.1	**741.5**
Total shareholder's equity	1,170.0	1,218.5	1,569.6	1,691.3	**1,807.7**
Return on common equity	2.7%	5.1%	9.7%	9.2%	**8.5%**

* *Includes $27.8 million of contributed surplus.*

Total Shareholder's equity grew by $116.4 million to $1.8 billion, with a consolidated net income of $138.0 million and declared dividends of $21.6 million.

Return on common equity was 8.5%, below the 9.2% of last year, but above both the CP and internal objectives.

Pension & Other Employee Future Benefits

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 20 to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value the future liability, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

The *Pension Benefits Standards Act* of 1985 and related regulations determine registered pension funding requirements, while the *Income Tax Act* and its regulations define funding limits. BDC temporarily suspended employer contributions to the registered pension plan between 1994 and 2005, and employee contributions between 1997 and 2005, due to funding surpluses. In July 2005, BDC gradually began phasing in employee contributions, and full contributions will be reinstated by July 2007.

As of December 2006, the registered pension plan enjoyed a funding surplus on a going-concern basis and a funding deficit on a hypothetical-solvency basis. BDC's employer contributions totalled $27.5 million in fiscal 2007, compared with $20.5 million in fiscal 2006. In the past, the supplemental plans were mostly unfunded, but BDC chose to contribute $14.6 million in fiscal 2006 and $9.3 million in fiscal 2007 to reduce the unfunded liability. Other employee future benefits remain unfunded.

As of March 31, 2007, the net underfunded amounts related to the registered pension plan, the supplemental pension plans and other plans totalled $146 million.

During the year, we announced changes to the post-retirement benefit program that will affect employees who retire after January 1, 2012. The new post-retirement benefits program will provide different life insurance, health and dental coverage. These changes generated a gain of $9.7 million on July 1, 2006.

Capital Management

Statutory Limitations

As provided for in the BDC Act, BDC's debt-to-equity ratio cannot exceed 12:1. At March 31, 2007, it was steady at 4.6:1, compared with 4.7:1 as at March 31, 2006. Moreover, BDC's paid-in capital must not exceed $1.5 billion. Paid-in capital amounted to $1.1 billion in fiscal 2007, unchanged from fiscal 2006, since no additional capital was received.

Capital Adequacy

Treasury Board of Canada Secretariat provides BDC with guidelines for establishing capital adequacy ratios. We must maintain capital and loss provisions sufficient to ensure BDC can withstand unfavourable economic circumstances without requiring additional government funding.

To that effect, adequate capital ratios reflect the relative risk of the various asset types we hold. The required capital is 10% of net value for term loans, 25% for quasi-equity loans and 100% for venture capital investments. The Shareholder reconfirmed these ratios in fiscal 2003. BDC operates in accordance with its regulatory capital ratios.

While BDC is not required to meet the requirements of the Basel II Capital Accord, we use an economic capital model and a supporting risk rating system that complies with Basel requirements. The capital model looks beyond market, credit and operational risks to business risks and maturity risks. Our model now assesses operational risks more accurately, based on internally observed measures and not external industry benchmarks.

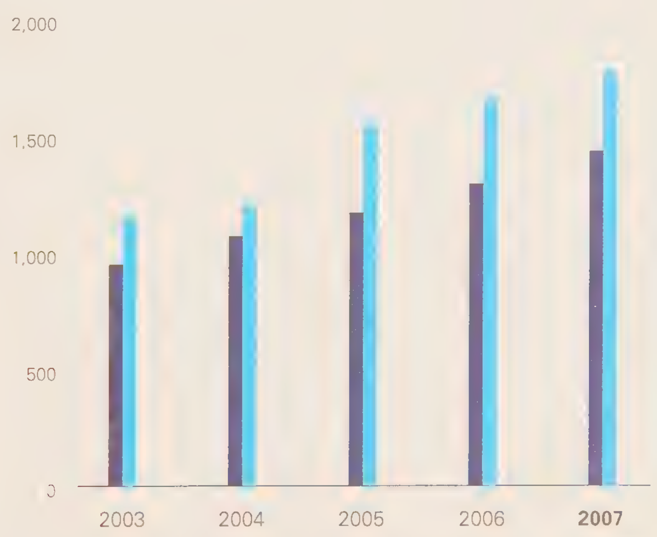
Debt : Equity

as at March 31

	2003	2004	2005	2006	2007
Actual	5.3	5.9	4.6	4.7	**4.6**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

Capital Adequacy

as at March 31 ($ in millions)



	2003	2004	2005	2006	2007
Regulatory	962	1,086	1,189	1,316	**1,460**
Actual	1,170	1,219	1,570	1,691	**1,808**

Consolidated Financial Statements

Management's Responsibility for Financial Information

The consolidated financial statements of the Business Development Bank of Canada were prepared and presented by Management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the consolidated financial statements.

In discharging its responsibility for the integrity, fairness and quality of the consolidated financial statements and for the accounting systems from which they are derived, Management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the Vice President, Internal Audit and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing Management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of BDC, is responsible for reviewing and approving the audited annual consolidated financial statements.

BDC's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada have audited BDC's consolidated financial statements and their report indicates the scope of their audit and their opinion on the consolidated financial statements.

Jean-René Halde
President and Chief Executive Officer

Paul Buron, CA
Executive Vice President and Chief Financial Officer

Montreal, Canada
May 18, 2007

Auditors' Report

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2007 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank and of its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank and the charter and the by-laws of its wholly-owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Raymond Chabot Grant Thornton LLP

Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montreal, Canada
May 18, 2007

Consolidated Balance Sheet

as at March 31 ($ in thousands)

	2007	2006
Assets		
Cash and cash equivalents (Note 4)	**$ 764,803**	$ 752,730
Securities (Note 5)	**164,266**	177,555
	929,069	930,285
Loans, net of allowance for credit losses (Note 6)	**8,622,646**	8,129,880
Subordinate financing loans and investments (Note 7)	**148,290**	143,901
Venture capital investments (Note 8)	**505,118**	431,379
	9,276,054	8,705,160
Fixed assets, net of accumulated amortization (Note 9)	**33,882**	37,661
Derivative-related assets (Note 17)	**442,368**	545,711
Other assets (Note 10)	**122,708**	92,606
	598,958	675,978
Total Assets	**$10,804,081**	$10,311,423
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	**$ 67,013**	$ 77,624
Accrued interest on borrowings	**28,408**	21,206
	95,421	98,830
Borrowings (Note 11)		
Short-term notes	**3,974,496**	4,199,347
Long-term notes	**4,253,371**	3,676,821
	8,227,867	7,876,168
Derivative-related liabilities (Note 17)	**530,302**	511,606
Other liabilities (Note 12)	**142,773**	133,542
Shareholder's Equity		
Share capital (Note 13)	**1,038,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**741,540**	625,099
	1,807,718	1,691,277
Guarantees, contingent liabilities and commitments (Note 19)		
Total Liabilities and Shareholder's Equity	**$10,804,081**	$10,311,423

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Approved by the Board:

S E Bracken-Horrocks

Stan Bracken-Horrocks
Director
Chairperson Audit Committee

Jean-René Halde

Jean-René Halde
Director
President and Chief Executive Officer

Consolidated Statement of Income and Retained Earnings

For the years ended March 31 ($ in thousands)

	2007	2006
Financing		
Interest income		
Loans	**$ 737,634**	$ 605,460
Short-term investments and securities	**41,360**	26,251
	778,994	631,711
Interest expense	**330,538**	209,236
Net interest income	**448,456**	422,475
Other income	**28,548**	27,157
Provision for credit losses (Note 6)	**67,890**	88,148
Income before operating and administrative expenses	**409,114**	361,484
Operating and administrative expenses (Note 15)	**241,122**	220,424
Income from Financing	**167,992**	141,060
Subordinate Financing		
Interest income	**17,876**	15,423
Interest expense	**4,098**	4,635
Net interest income	**13,778**	10,788
Realized gains on disposals of investments and other income	**13,755**	12,218
Change in unrealized (depreciation) appreciation of investments	**(7,253)**	1,506
Income before operating and administrative expenses	**20,280**	24,512
Operating and administrative expenses (Note 15)	**12,335**	10,830
Income from Subordinate Financing	**7,945**	13,682
Venture Capital		
Realized (losses) gains on disposals of investments	**(1,153)**	21,571
Interest, dividends and other	**8,275**	6,958
Change in unrealized depreciation of investments	**(26,026)**	(27,695)
(Loss) income before operating and administrative expenses	**(18,904)**	834
Operating and administrative expenses (Note 15)	**14,700**	13,613
Loss from Venture Capital	**(33,604)**	(12,779)
Consulting		
Revenue	**23,523**	21,570
Operating and administrative expenses (Note 15)	**27,849**	25,352
Loss from Consulting	**(4,326)**	(3,782)
Net Income	**$ 138,007**	$ 138,181
Retained earnings, beginning of year	**625,099**	503,391
Dividends on common shares	**(12,131)**	(7,757)
Dividends on preferred shares	**(9,435)**	(8,716)
Retained earnings, end of year	**$ 741,540**	$ 625,099

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 14 provides additional information on earnings

Consolidated Statement of Cash Flows

For the years ended March 31 ($ in thousands)

	2007	2006
Cash Flows Provided by Operating Activities		
Net income	**$ 138,007**	$ 138,181
Adjustments to determine net cash flows:		
Realized losses (gains) on disposals of investments	**4,034**	(21,571)
Change in unrealized depreciation on investments	**32,121**	26,736
Provision for credit losses and write-down	**68,980**	89,853
Amortization of fixed assets	**13,162**	14,934
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	**(6,585)**	(4,742)
Change in accrued interest on borrowings	**7,202**	597
Translation adjustment on borrowings and securities	**(86,588)**	(10,396)
Change in derivative-related assets	**103,343**	(100,391)
Change in derivative-related liabilities	**18,696**	159,079
Net change in other assets and other liabilities	**(30,729)**	(6,313)
Net Cash Flows Provided by Operating Activities	**261,643**	285,967
Cash Flows Used in Investing Activities		
Purchases of securities	**(75,018)**	(56,972)
Maturities of securities	**98,814**	15,037
Disbursements for loans and subordinate financing	**(2,484,922)**	(2,495,777)
Repayments of loans and subordinate financing	**1,916,326**	1,721,171
Disbursements for venture capital investments	**(133,364)**	(123,651)
Proceeds on sales of venture capital investments	**31,044**	69,797
Acquisition of fixed assets	**(9,383)**	(11,448)
Net Cash Flows Used in Investing Activities	**(656,503)**	(881,843)
Cash Flows Provided by Financing Activities		
Net change in short-term notes	**(190,799)**	719,182
Issue of long-term notes	**1,113,479**	689,602
Repayment of long-term notes	**(494,900)**	(799,746)
Dividends paid on common and preferred shares	**(20,847)**	(16,787)
Net Cash Flows Provided by Financing Activities	**406,933**	592,251
Net increase (decrease) in cash and cash equivalents	**12,073**	(3,625)
Cash and cash equivalents at beginning of year	**752,730**	756,355
Cash and cash equivalents at end of year (Note 4)	**$ 764,803**	$ 752,730
Supplemental Disclosure of Cash Flow Information		
Amount of interest paid in the year	**$ 327,433**	$ 213,274

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

($ in thousands except as otherwise indicated)

– 1 –

Act of Incorporation, Objectives and Operations of the Corporation

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. BDC is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of BDC are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. BDC offers Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further BDC's activities.

To finance these objectives, BDC issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act (BDC Act)* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2007.

BDC is for all purposes an agent of Her Majesty in right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act.*

– 2 –

Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that Management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for losses on loans, actuarial estimates of employee future benefits and consideration of fair values of investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these Management judgments. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Basis of consolidation

BDC conducts business through a variety of corporate structures, including a subsidiary and joint ventures. The subsidiary is controlled through a 100% share ownership of its voting shares. Joint ventures are those where BDC exercises joint control through an agreement with other parties. All of the assets, liabilities, revenues and expenses of the wholly-owned subsidiary, as well as BDC's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures are included in these consolidated financial statements. All inter-company transactions and balances have been eliminated.

Securities

BDC holds securities for liquidity purposes based on policies approved by the Board of Directors. Section 18(3) of the BDC Act defines the nature of the debt securities which can be held by BDC.

Debt securities are purchased with the intention of being held to maturity and are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Loans are classified as impaired when there is deterioration in credit quality to the extent that BDC no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

– 2 –

Significant Accounting Policies (continued)

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in BDC's portfolio. It reflects Management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries. Loans are written-off when all collection efforts have been exhausted and no further prospect of recovery is likely.

The allowance for credit losses is comprised of specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the balance sheet date for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and Management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Investments

Venture capital investments and subordinate financing investments are measured and presented at fair value.

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents Management's best estimate of the net worth of an investment at the balance sheet date, and may not reflect the ultimate realizable value upon the disposition of the investment.

Gains and losses on disposals of investments are recognized at the time of disposal. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. Changes in unrealized appreciation and depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the balance sheet date.

BDC's approach to fair value measurement has been derived from guidelines issued by the industry. Based on the type of investments BDC carries out, BDC uses either (i) market-based methodologies, such as the quoted share price or the price of recent investments; (ii) discounted earnings or cash flow approaches; (iii) liquidation or asset-based methods. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and telecommunication	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	6 years
Systems development costs	3-7 years

Derivative-related assets

Derivative-related assets include unrealized gains and amounts receivable on derivative financial instruments that are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings and investments at March 31.

Derivative-related liabilities

Derivative-related liabilities include unrealized losses on derivative financial instruments and amounts payable to counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings and investments at March 31.

– 2 –

Significant Accounting Policies (continued)

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. All exchange gains and losses are included in net income for the year.

Derivative financial instruments

BDC enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. BDC's policy is not to use derivative financial instruments for trading or speculative purposes. BDC formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet. BDC also formally assesses the effectiveness of the hedging relationship at the hedges' inception as well as on a quarterly basis.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. BDC designates its interest rate hedge agreements as hedges of underlying borrowings. Highly effective derivatives used for hedging interest rate risk are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and are presented in derivative- related assets or in derivative-related liabilities.

Unrealized foreign exchange and equity translation gains and losses on highly effective cross-currency or equity-linked derivative financial instruments are respectively accrued in derivative-related assets or derivative-related liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. Highly effective derivatives accomplish the objectives of offsetting changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Derivative financial instruments not associated with effective hedging relationships are carried at fair value on the balance sheet, with any change in the fair value charged or credited to the income statement. Deferred gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any previously deferred gain or loss on such derivative instrument is immediately recognized in income under interest expense.

The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

Pension and other employee future benefits

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other benefit plans such as post-employment benefits and post-retirement benefits for eligible employees.

The cost of pension and other employee future benefits earned by employees is determined annually on an actuarial basis using the projected benefit method prorated on service and Management's best estimate assumptions such as the expected long-term rate of return on plan assets, rate of compensation increase, inflation, retirement ages of employees, and other factors.

The pension costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, and the amortization of net actuarial gains and losses, past service costs and transitional assets and obligations. The market-related value of plan assets is used for the purpose of calculating the expected return on plan assets.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

— 2 —

Significant Accounting Policies (continued)

Each fiscal year, actuaries determine whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of BDC's active employees. Amounts that fall within the 10% corridor are not amortized. The average remaining service period of the active employees covered by:

- the registered and supplemental pension plans is 8.2 years (8.1 years in 2006);
- the post-retirement benefits plan other than pension is 8.0 years (8.0 years in 2006).

Amortization of transitional assets and obligations relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, BDC had transitional assets and obligations that are being amortized to expense on a straight-line basis over the average remaining service period of BDC's active employees expected to receive benefits under the benefit plans as of April 1, 2000. This period ranged from 8.5 years for the registered pension plan to 13 years for the supplemental pension plans and the other benefit plans. As mentioned in note 20, the unamortized transitional obligation with respect to post-retirement benefits other than pension was fully recognized on July 1, 2006.

The measurement date is December 31 for the pension plans and March 31 for the other benefit plans.

— 3 —

Future Accounting Changes

Financial instruments, hedges and comprehensive income

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges*. These new standards are effective for BDC on April 1, 2007.

Comprehensive Income

Section 1530 introduces Comprehensive Income which is comprised of net income and other comprehensive income. Other Comprehensive Income (OCI) includes unrealized gains and losses on financial instruments classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. BDC's Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, accumulated other comprehensive income (AOCI), will be presented as a new category of Shareholder's equity in the Consolidated Balance Sheet.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial instruments. It requires that all financial assets and financial liabilities including derivatives be recognized on the balance sheet when BDC becomes a party to the contract of the financial instrument or derivative. Financial instruments should be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available-for-sale, held-to-maturity, loans and receivable, or other liabilities.

– 3 –

Future Accounting Changes (continued)

Financial assets and financial liabilities held for trading will be measured at fair value with gains and losses recognized in net income. Loans, receivables and other liabilities will be measured at amortized cost. Available-for-sale financial instruments will be measured at fair value with unrealized gains and losses being recognized in OCI.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts if they are not closely related to such financial instruments or contracts. Changes in fair values of derivative instruments will be recognized in net income, except for derivatives which are designated as cash flow hedge, the fair value change of which will be recognized in OCI.

Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for fair value hedges and cash flow hedges.

In a fair value hedge, the changes in the fair value of the hedged item will be offset by changes in the fair value of the hedging derivative in net income, to the extent the hedge is effective.

In a cash flow hedge, the change in the fair value of the hedging derivative will be recognized in OCI, except for the ineffective portion which will be recognized in net income. The amounts recognized in AOCI will be transferred to net income when the variability of the hedged items will affect net income.

Impact of adopting Sections 1530, 3855 and 3865

The transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as at April 1, 2007: (i) financial assets and liabilities that will be classified as held for trading and that were not previously recognized at fair value and (ii) the ineffective portion of cash flow hedges.

Adjustments arising due to remeasuring financial assets and liabilities classified as available-for-sale and hedging instruments designated as cash flow hedges will be recognized on the opening balance of AOCI.

These changes will be applied prospectively and opening balances will be adjusted.

Amendments to AcG-18 Investment Companies

In fiscal 2006, BDC adopted the CICA accounting guideline AcG-18 *Investment Companies*. In April 2007, the CICA amended AcG-18, stating that an investment company should measure all of its investments at fair value and present them on this basis in its financial statements. This includes investments that meet the definition of a joint venture.

BDC, through its investment company subsidiary, holds investments in other investment companies that are accounted for using proportionate consolidation. BDC will apply AcG-18 changes to its fiscal 2008 year-end. Overall financial impact on net income has not yet been determined.

– 4 –

Cash and Cash Equivalents

		2007		2006
Bank account balances, net of cheques outstanding	$	(4,984)	$	1,094
Short-term bank notes		769,787		751,636
	$	764,803	$	752,730

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

– 5 –

Securities

	Term to maturity			2007	2006
	Within 1 year	1 to 3 years	Over 3 years	Total	Total
Financial institutions					
Carrying value	$ 73,666	$ 90,600	$ –	**$ 164,266**	$ 177,555
Yield	4.70%	4.41%	–	**4.54%**	3.74%
Fair value	$ 73,680	$ 90,276	$ –	**$ 163,956**	$ 177,790
Swap contracts					
Notional amount	$ 78,000	$ 96,260	$ –	**$ 174,260**	$ 191,207
Adjusted yield*	4.42%	4.51%	–	**4.47%**	3.97%

Amounts denominated in foreign currencies included in the carrying value of securities

US dollars – 2006	US	$ 51,050		
Euros – 2006		€ 53,500		$ 135,342
US dollars – 2007	**US**	**$ 35,900**		
Euros – 2007		**€ 31,000**	**$ 89,249**	

* *After adjusting for the effect of related derivatives (see Note 17)*

All securities held as at March 31 were issued by Canadian entities at fixed and floating rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, BDC has entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and the foreign exchange risks associated with the above securities.

– 6 –

Loans

The following table summarizes the repricing or maturity dates, whichever is earlier, of loans outstanding as at March 31.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	Total net amount
Performing	**$ 419,313**	**$ 2,501,047**	**$ 5,921,285**	**$ 8,841,645**	**$ (399,158)**	**$ –**	**$ (399,158)**	**$ 8,442,487**
Impaired	**4,207**	**112,096**	**170,197**	**286,500**	**–**	**(106,341)**	**(106,341)**	**180,159**
Loans as at March 31, 2007	**$ 423,520**	**$ 2,613,143**	**$ 6,091,482**	**$ 9,128,145**	**$ (399,158)**	**$ (106,341)**	**$ (505,499)**	**$ 8,622,646**
Loans as at March 31, 2006 *	$ 410,339	$ 2,396,395	$ 5,820,465	$ 8,627,199	$ (399,158)	$ (98,161)	$ (497,319)	$ 8,129,880

* *Include $299,421 of impaired loans.*

– 6 –

Loans (continued)

The concentrations of the total loans outstanding by province and territory, and by industry sector as at March 31 are set out in the tables below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	**2007**		2006	
Newfoundland and Labrador	**$ 364,160**	**4.0%**	$ 354,295	4.1%
Prince Edward Island	**51,041**	**0.6%**	43,133	0.5%
Nova Scotia	**227,840**	**2.5%**	216,672	2.5%
New Brunswick	**361,661**	**4.0%**	338,823	3.9%
Quebec	**3,479,332**	**38.1%**	3,369,382	39.1%
Ontario	**2,893,821**	**31.7%**	2,745,706	31.8%
Manitoba	**212,889**	**2.3%**	166,192	1.9%
Saskatchewan	**136,565**	**1.5%**	116,579	1.4%
Alberta	**592,646**	**6.5%**	540,056	6.3%
British Columbia	**750,963**	**8.2%**	680,229	7.9%
Yukon	**31,080**	**0.3%**	26,145	0.3%
Northwest Territories and Nunavut	**26,147**	**0.3%**	29,987	0.3%
Total loans outstanding	**$ 9,128,145**	**100.0%**	$ 8,627,199	100.0%

Industry Sector	**2007**		2006*	
Manufacturing	**$ 3,182,055**	**34.9%**	$ 3,034,131	35.2%
Wholesale and retail trade	**1,956,433**	**21.4%**	1,796,365	20.8%
Tourism	**1,052,529**	**11.5%**	1,056,859	12.3%
Construction	**533,698**	**5.8%**	452,970	5.3%
Transportation & storage	**480,664**	**5.3%**	413,259	4.8%
Commercial properties	**418,532**	**4.6%**	510,549	5.9%
Business services	**361,039**	**4.0%**	287,347	3.3%
Other	**1,143,195**	**12.5%**	1,075,719	12.4%
Total loans outstanding	**$ 9,128,145**	**100.0%**	$ 8,627,199	100.0%

* *New grouping based on North American Industry Classification System (NAICS) codes*

Included in these loan figures are $15 million of foreclosed assets. Foreclosed assets represent property or other assets BDC has received from borrowers to satisfy their loan commitments, and are recorded at fair value. Fair value is determined at market prices where available, or other methods including an analysis of discounted cash flows.

Allowance for Credit Losses

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2007	2006
Balance at beginning of year	**$ 497,319**	$ 471,967
Write-offs and other	**(60,057)**	(65,119)
Interest income due to accretion	**(4,303)**	(3,623)
Recoveries	**4,650**	5,946
	$ 437,609	$ 409,171
Provision for credit losses	**67,890**	88,148
Balance at end of year	**$ 505,499**	$ 497,319

– 7 –

Subordinate Financing Loans and Investments

The following table summarizes the repricing or maturity dates, whichever is earlier, of subordinate financing loans and investments outstanding as at March 31.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation and other	Total net amount
As at March 31, 2007						
Loans	**$ 7,985**	**$ 21,615**	**$ –**	**$ 29,600**	**$ (3,150)**	**$ 26,450**
Investments	**4,480**	**101,809**	**14,083**	**120,372**	**1,468**	**121,840**
Total	**$ 12,465**	**$ 123,424**	**$ 14,083**	**$ 149,972**	**$(1,682)**	**$ 148,290**
As at March 31, 2006						
Loans	$ 7,524	$ 45,397	$ 452	$ 53,373	$ (4,677)	$ 48,696
Investments	–	95,205	–	95,205	–	95,205
Total	$ 7,524	$ 140,602	$ 452	$ 148,578	$ (4,677)	$ 143,901

BDC holds a portfolio of subordinate financing investments through its joint ventures with the Caisse de dépôt et placement du Québec (the Caisse), AlterInvest Fund L.P., AlterInvest II Fund L.P., and AlterInvest Investment Fund Inc. BDC acts as the general partner of the limited partnerships.

The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2007	2006
Current assets	**$ 7,671**	$ 1,338
Subordinate financing investments	**121,840**	95,205
Current liabilities	**347**	575
Net interest income	**$ 12,200**	$ 7,257
Realized gains on disposals of investments and other income	**9,885**	7,356
Change in unrealized (depreciation) appreciation	**(6,095)**	959
Operating and administrative expenses	**53**	50
Income from subordinate financing investments	**$ 15,937**	$ 15,522
Cash flows from (used in):		
Operating activities	**$ 10,190**	$ 9,219
Investing activities	**(30,723)**	(52,903)
Financing activities	**27,729**	45,996

– 8 –

Venture Capital Investments

BDC maintains a portfolio of venture capital investments which is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.3% of total venture capital investments (3.9% in 2006).

		2007		2006
Industry Sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology/Medical/Health	**$ 143,451**	**$ 171,792**	$ 132,082	$ 158,098
Information Technology	**102,330**	**135,674**	77,933	107,277
Electronics	**93,032**	**103,524**	83,501	102,590
Communications	**94,566**	**89,052**	73,964	73,578
Industrial	**22,019**	**24,688**	18,991	19,456
Consumer-related	**1,000**	**2,000**	2,000	2,000
Energy	**3,193**	**5,500**	500	5,000
Other	**5,000**	**750**	7,000	750
Total direct investments	**464,591**	**532,980**	395,971	468,749
Seed funds	**$ 3,874**	**$ 22,580**	$ 6,725	$ 22,598
Specialized funds	**36,475**	**45,299**	28,683	34,265
Seed and commercialization funds	**178**	**300**	–	–
Venture capital investments	**$ 505,118**	**$ 601,159**	$ 431,379	$ 525,612

Investments are generally held for periods longer than five years. Divestitures are made through listings of investee shares on public markets or the sale of BDC's shares to other existing shareholders or to third parties. Investment yields vary from year to year, as the fair value changes of the investments are brought into income. The following table presents a summary of the venture capital portfolio by type of investment.

		2007		2006
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**$ 80,367**	**$ 93,811**	$ 30,080	$ 62,673
Preferred shares	**331,218**	**374,374**	293,705	328,101
Debentures	**53,006**	**64,795**	72,186	77,975
Funds	**40,527**	**68,179**	35,408	56,863
Venture capital investments	**$ 505,118**	**$ 601,159**	$ 431,379	$ 525,612

In fiscal 2006, BDC adopted the accounting guideline AcG-15 *Consolidation of Variable Interest Entities (VIEs)*. On March 1, 2007, the Accounting Standards Board (AcSB) of the CICA approved amendments to AcG-15, stating that AcG-15 does not apply to investments accounted for at fair value in accordance with the specialized accounting guidance found in accounting guideline AcG-18 *Investment Companies*. BDC adopted these changes to AcG-15.

BDC has invested in seed funds over which it has joint control. The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2007	2006
Current assets	**$ 669**	$ 1,441
Venture capital investments	**2,558**	4,716
Other assets	**3**	2
Current liabilities	**28**	79
Realized gains (losses) on disposal of investments, interest, dividends and other	**666**	(294)
Change in unrealized depreciation	**2,708**	1,602
Operating and administrative expenses	**265**	398
Loss from Venture capital	**$ (2,307)**	$ (2,294)
Cash flows from (used in):		
Operating activities	**$ (271)**	$ (277)
Investing activities	**(52)**	167
Financing activities	**(446)**	(150)

– 9 –

Fixed Assets

	Cost	Accumulated amortization	Carrying value
Computer equipment and telecommunication	$ 30,765	$ 27,132	$ 3,633
Furniture, fixtures and equipment	41,959	36,387	5,572
Leasehold improvements	47,326	33,209	14,117
Systems development costs	36,573	26,013	10,560
Total 2007	**$ 156,623**	**$ 122,741**	**$ 33,882**
Total 2006	$ 147,240	$ 109,579	$ 37,661

– 10 –

Other Assets

	2007	2006
Accrued benefit asset (Note 20)	$ 100,672	$ 78,641
Unamortized debt issue expenses on long-term notes	7,845	1,147
Other	14,191	12,818
	$ 122,708	$ 92,606

– 11 –

Borrowings

BDC issues debt instruments in capital markets to fund its loan portfolio, which are measured at amortized cost. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of BDC's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, BDC enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below presents the outstanding notes as at March 31.

			2007		2006	
Maturity date	**Effective rate**	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes						
2007	2.95%-4.88%	USD			$ 1,638,725	$ 1,900,282
		CDN			2,312,246	2,299,065
2008	4.00%-5.18%	USD	$ 1,132,765	$ 1,297,586		
		CDN	2,696,680	2,676,910		
Total short-term notes				**$ 3,974,496**		$ 4,199,347

– 11 –

Borrowings (continued)

Maturity date	2007 Effective rate*	2006 Effective rate*	Currency	2007 Principal amount	2007 Carrying value	2006 Principal amount	2006 Carrying value
Long-term notes							
2007		3.14%-4.98%	CDN	$ –	$ –	$ 286,102	$ 288,137
2008	3.85%-4.26%	3.49%-3.61%	CDN	**350,940**	**350,940**	267,940	267,940
2009	4.00%	3.51%	USD	**43,000**	**49,641**	43,000	50,215
	3.89%-4.13%	3.40%-3.65%	CDN	**398,311**	**402,545**	226,965	231,647
2010	4.04%-4.10%	3.49%-3.56%	USD	**40,000**	**46,178**	40,000	46,712
	3.90%-4.09%	3.41%-3.68%	CDN	**224,217**	**231,288**	239,731	248,576
2011	3.94%-4.05%	3.41%-3.55%	USD	**17,000**	**20,054**	17,000	20,023
	3.89%-4.24%	3.36%-3.75%	CDN	**351,811**	**340,896**	424,585	415,570
2012	4.04%-4.08%		Yen	**2,250,000**	**22,044**	–	
	4.07%	3.52%	USD	**10,000**	**11,544**	10,000	11,678
	3.89%-4.08%	3.36%-3.44%	CDN	**302,636**	**345,872**	324,786	395,001
2013	4.08%-4.09%	3.55%-3.60%	USD	**16,000**	**18,471**	16,000	18,685
	4.06%-4.07%	3.51%-3.58%	CDN	**15,000**	**15,000**	15,000	15,000
2014	4.07%-4.09%	3.52%-3.57%	Yen	**5,100,000**	**49,965**	1,500,000	14,884
	4.04%-4.11%	3.48%-3.62%	USD	**93,200**	**107,595**	93,200	108,839
	3.96%-4.07%	3.51%-3.59%	CDN	**77,000**	**78,734**	77,000	77,000
2015	4.05%-4.08%	3.53%-3.59%	Yen	**3,000,000**	**29,392**	3,000,000	29,768
	4.05%-4.09%	3.50%-3.60%	USD	**45,000**	**51,950**	45,000	52,551
	3.98%-4.07%		CDN	**97,150**	**98,469**		
2016	4.05%-4.09%	3.50%-3.59%	Yen	**11,000,000**	**107,769**	11,000,000	109,150
	4.11%	3.57%-3.58%	USD	**40,000**	**46,178**	40,000	46,712
2017	4.06%-4.10%	3.53%-3.54%	Yen	**5,700,000**	**55,844**	3,700,000	36,713
	4.03%-4.11%	3.54%	USD	**43,000**	**49,641**	3,000	3,504
2018	4.05%-4.15%	3.47%-3.64%	Yen	**34,200,000**	**335,063**	35,800,000	355,232
2019	4.04%-4.12%	3.49%-3.62%	Yen	**28,900,000**	**283,138**	30,000,000	297,680
	4.11%	3.58%	USD	**24,112**	**27,836**	22,838	26,671
2020	3.36%-4.11%	3.36%-3.63%	Yen	**25,400,000**	**248,848**	25,900,000	256,997
2021	4.03%-4.09%	3.50%-3.60%	Yen	**18,560,000**	**181,836**	21,560,000	213,933
	4.09%	3.54%	USD	**34,554**	**39,890**	32,542	38,003
2022	4.07%-4.11%		Yen	**3,700,000**	**36,250**	–	
	3.99%-4.09%		CDN	**570,500**	**570,500**		
Total long-term notes					**$ 4,253,371**		$ 3,676,821

* *The effective rates on long-term notes are established after giving effect to swap contracts when applicable and refer to yield to maturity for fixed rate issues and yield to reset for floating rate issues.*

– 11 –

Borrowings (continued)

The preceding table includes $4,248,621 in 2007 and $3,672,071 in 2006 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of BDC's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for extendable notes are presented based on their first option date.

BDC has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by BDC or the note holders. The types of notes included in the previous table are as follows:

	2007	2006
Interest-bearing notes	**$ 838,976**	$ 137,854
Fixed and inverse floating rate notes	**948,508**	929,179
Managed futures	**761,910**	925,052
Notes linked to equity indices	**539,257**	709,198
Notes linked to currency rates	**311,681**	280,812
Notes linked to swap rates	**164,380**	122,812
Notes extendible beyond maturity	**128,000**	73,000
Other structured notes	**560,659**	498,914
	$ 4,253,371	$ 3,676,821

Long-term notes of $2,301,371 are redeemable prior to maturity ($2,351,896 as at March 31, 2006).

As at March 31, 2007, the payment requirements and maturities of long-term notes are as follows:

2008	**$ 350,940**
2009	**452,186**
2010	**277,466**
2011	**360,950**
2012	**379,460**
2013 and later	**2,432,369**
	$ 4,253,371

BDC has an available overdraft facility of $75 million, for BDC's cash accounts totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2007, BDC was not in an overdraft position.

BDC also has a line of credit for $50 million which was not used throughout fiscal 2007.

– 12 –

Other Liabilities

	2007	2006
Deferred income	**$ 984**	$ 1,648
Accrued benefit liability (Note 20)	**106,710**	105,964
Other	**35,079**	25,930
	$ 142,773	$ 133,542

– 13 –

Share Capital and Statutory Limitations

Share capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding			**2007**				2006
	Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares						
Class A – Series 1	**500,000**	**$ 50,000**	**3.865%**	500,000	$ 50,000	3.865%
– Series 2	**500,000**	**50,000**	**4.455%**	500,000	50,000	4.365%
– Series 3	**500,000**	**50,000**	**3.965%**	500,000	50,000	3.965%
– Series 4	**400,000**	**40,000**	**3.970%**	400,000	40,000	3.970%
– Series 5	**400,000**	**40,000**	**4.260%**	400,000	40,000	4.260%
		230,000			230,000	
Common shares	**8,084,000**	**808,400**		8,084,000	808,400	
Total Outstanding Share Capital		**$ 1,038,400**			$ 1,038,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

Statutory limitations

The aggregate of borrowings and contingent liabilities of BDC in the form of guarantees given by it may not exceed twelve times the shareholder's equity of BDC. BDC's ratio at March 31, 2007 was 4.6:1 (4.7:1 as at March 31, 2006).

The paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion. At March 31, 2007, these amounts totalled $1.1 billion ($1.1 billion as at March 31, 2006).

Moreover, BDC has to maintain adequate equity to reflect the relative riskiness of its assets, and in particular, maintain capital as a percentage of net portfolio assets of at least 10% for term loans, 25% for quasi-equity loans (including subordinate financing), and 100% for venture capital investments. As shown below, BDC operates in accordance with its capital adequacy guidelines.

	2007	2006
Regulatory capital	**$ 1,459,980**	$ 1,315,614
Actual capital	**$ 1,807,718**	$ 1,691,277

– 14 –

Information Included in the Consolidated Statements of Income and Retained Earnings

	2007	2006
Interest income		
Financing	$ 778,994	$ 631,711
Subordinate financing	17,876	15,423
Venture capital	7,014	6,811
	$ 803,884	$ 653,945
Interest expense		
Interest on notes	$ 180,397	$ 111,693
Interest on swaps	152,329	101,644
Other	1,910	534
	$ 334,636	$ 213,871
Amortization of fixed assets	$ 13,162	$ 14,934
Currency translation adjustment	$ (66)	$ 88

– 15 –

Operating and Administrative Expenses

	2007				2006			
	Financing	Subordinate Financing	Venture Capital	Consulting	Financing	Subordinate Financing	Venture Capital	Consulting
Salaries and benefits	$ 149,164	$ 10,696	$ 9,894	$ 13,915	$ 131,212	$ 9,176	$ 9,390	$ 11,761
Premises and equipment	32,422	590	1,474	946	33,497	590	1,460	990
Other expenses	59,536	1,049	3,332	12,988	55,715	1,064	2,763	12,601
	$ 241,122	$ 12,335	$ 14,700	$ 27,849	$ 220,424	$ 10,830	$ 13,613	$ 25,352

– 16 –

Fair Value of Financial Instruments

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by BDC using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, many of the financial instruments lack an available trading market. Therefore, in these cases, fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values of on-balance sheet financial instruments (except for investments carried at fair value) are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is BDC's intention to realize the value of these financial instruments over time by holding them to maturity.

– 16 –

Fair Value of Financial Instruments (continued)

	2007			2006		
	Fair value	**Carrying value**	**Fair value over (under) carrying value**	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	**$ 764,803**	**$ 764,803**	**$ –**	$ 752,730	$ 752,730	$ –
Securities	**163,956**	**164,266**	**(310)**	177,790	177,555	235
Loans, net of allowance for credit losses	**8,627,490**	**8,622,646**	**4,844**	8,101,985	8,129,880	(27,895)
Subordinate financing loans and investments	**148,290**	**148,290**	**–**	143,901	143,901	–
Venture capital investments	**505,118**	**505,118**	**–**	431,379	431,379	–
Other	**14,669**	**14,669**	**–**	13,007	13,007	–
	$10,224,326	**$10,219,792**	**$ 4,534**	$ 9,620,792	$ 9,648,452	$ (27,660)
Liabilities						
Accounts payable and accrued liabilities	**$ 67,013**	**$ 67,013**	**$ –**	$ 77,624	$ 77,624	$ –
Accrued interest on borrowings	**28,408**	**28,408**	**–**	21,206	21,206	–
Short-term notes	**3,974,496**	**3,974,496**	**–**	4,199,044	4,199,347	(303)
Long-term notes	**4,304,186**	**4,253,371**	**50,815**	3,548,101	3,676,821	(128,720)
Other	**12,229**	**12,229**	**–**	10,032	10,032	–
	$ 8,386,332	**$ 8,335,517**	**$ 50,815**	$ 7,856,007	$ 7,985,030	$ (129,023)
			$ (46,281)			$ 101,363
Derivative financial instruments						
Derivative-related assets	**$ 411,883**	**$ 442,368**	**$ (30,485)**	$ 380,243	$ 545,711	$ (165,468)
Derivative-related liabilities	**449,739**	**530,302**	**(80,563)**	477,726	511,606	(33,880)
	$ (37,856)	**$ (87,934)**	**$ 50,078**	$ (97,483)	$ 34,105	$ (131,588)
Total			**$ 3,797**			$ (30,225)

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value – The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and cash equivalents
- Other assets and liabilities
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities – The basis used to estimate the fair value of securities is provided in Note 5 to the consolidated financial statements.

Loans – For performing floating rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses*.

Investments – Note 2 describes the fair value methods used by BDC.

Long-term notes – The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to BDC for notes of the same remaining maturity.

Derivative financial instruments – The basis used to estimate the fair value of derivative financial instruments is provided in Note 17 to the consolidated financial statements

– 17 –

Derivative Financial Instruments

As described in Note 2, BDC uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount, for a predetermined period. The various swap agreements that BDC enters into are as follows:

- *Interest rate swaps* involve exchange of fixed and floating interest payments.
- *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies.
- *Equity-linked swaps*, where one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.
- *Credit default swaps*, where one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or a credit rating change of another third party.

The main risk associated with these instruments is related to BDC's exposure to counterparties' credit risk.

Forwards and futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts and from movements in interest rates and foreign exchange rates, as applicable.

The following table provides the fair value of BDC's derivatives portfolio as at March 31 as presented by gross assets and gross liabilities values.

			2007			2006
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 10,311**	**$ 13,049**	**$ (2,738)**	$ 1,068	$ 13,753	$ (12,685)
Equity-linked swap contracts	**385,667**	**21,847**	**363,820**	335,537	47,820	287,717
Cross-currency interest rate swap contracts	**11,467**	**399,808**	**(388,341)**	21,856	415,161	(393,305)
Currency forward contracts	**4,409**	**14,948**	**(10,539)**	21,762	922	20,840
Total fair value – hedging derivatives[1]	**$411,854**	**$ 449,652**	**$ (37,798)**	$ 380,223	$ 477,656	$ (97,433)
Total book value – hedging derivatives	**$442,339**	**$ 530,215**	**$ (87,876)**	$ 545,691	$ 511,536	$ 34,155
Ineffective hedges						
Interest rate swap contracts	**$ 3**	**$ –**	**$ 3**	$ 1	$ 66	$ (65)
Forward rate agreements	**26**	**87**	**(61)**	19	4	15
Total fair value – ineffective derivatives	**$ 29**	**$ 87**	**$ (58)**	$ 20	$ 70	$ (50)
Total book value – ineffective derivatives	**$ 29**	**$ 87**	**$ (58)**	$ 20	$ 70	$ (50)

[1] The fair value of hedging derivatives wholly or partially offsets the changes in fair values of the related on-balance sheet financial instruments.

– 17 –

Derivative Financial Instruments (continued)

Assets are shown net of liabilities to counterparties where BDC has an enforceable right to offset amounts and intends to settle contracts on a net basis.

Derivative financial instruments recorded on the consolidated balance sheet are as follows:

	Assets		Liabilities	
	2007	2006	**2007**	2006
Book value of hedging derivatives	**$ 442,339**	$ 545,691	**$ 530,215**	$ 511,536
Fair value of ineffective derivatives	**29**	20	**87**	70
Total	**$ 442,368**	$ 545,711	**$ 530,302**	$ 511,606

The fair value of derivatives is determined using various methods including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methods as appropriate.

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2007		2006	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Hedging												
Interest rate contracts												
$CDN payable-fixed	$ 186,504	3.93	$ –	–	$ –	–	$ –	–	**$ 186,504**	**$ 243**	$ 142,956	$ 147
$CDN receivable-fixed	153,000	3.88	267,901	3.80	–	–	570,500	4.55	**991,401**	**10,060**	268,000	172
$US receivable-fixed	–	–	–	–	–	–	–	–	**–**	**–**	2,431	–
Basis Swap	130,000	4.23	–	–	–	–	–	–	**130,000**	**–**	170,000	–
Other swap contracts	50,000	n.a.	46,500	n.a.	12,431	n.a.	38,360	n.a.	**147,291**	**8**	94,472	749
Equity linked swap contracts	286,125	n.a.	700,414	n.a.	987,554	n.a.	189,150	n.a.	**2,163,243**	**385,667**	2,529,988	335,537
	805,629		1,014,815		999,985		798,010		**3,618,439**	**395,978**	3,207,847	336,605
Cross-currency interest rate swap contracts	39,460	n.a.	192,811	n.a.	57,652	n.a.	2,074,143	n.a.	**2,364,066**	**11,467**	2,346,862	21,856
Total	845,089		1,207,626		1,057,637		2,872,153		**5,982,505**	**407,445**	5,554,709	358,461
Foreign exchange contracts												
Currency forward contracts	1,403,975	n.a.	–	–	–	–	–	–	**1,403,975**	**4,409**	1,864,574	21,762
Total	1,403,975		–		–		–		**1,403,975**	**4,409**	1,864,574	21,762
Total hedging	$ 2,249,064		$ 1,207,626		$ 1,057,637		$ 2,872,153		**$ 7,386,480**	**$ 411,854**	$ 7,419,283	$ 380,223
Ineffective hedging												
Basis swaps	$ 17,500	n.a.	$ –	–	$ –	–	$ –	–	**$ 17,500**	**$ 3**	$ 170,800	$ –
Forward rate agreements	666,000	–	–	–	–	–	–	–	**666,000**	**26**	70,500	19
Other swap contracts	–	n.a.	–	n.a.	–	n.a.	–	n.a.	**–**	**–**	19,547	1
Total ineffective hedging	$ 683,500		$ –		$ –		$ –		**$ 683,500**	**$ 29**	$ 260,847	$ 20
Total	$ 2,932,564		$ 1,207,626		$ 1,057,637		$ 2,872,153		**$ 8,069,980**	**$ 411,883**	$ 7,680,130	$ 380,243

n.a. – not applicable or weighted rates are not significant

– 17 –

Derivative Financial Instruments (continued)

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivatives contracts.

Credit risk

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the gross asset values of transactions that are in an unrealized gain position.

BDC limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. BDC's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty credit risk exposure	**Counterparty ratings**		
	AA- to AA+	**A to A+**	**Total**
Gross positive replacement cost	**$ 326,393**	**$ 85,490**	**$ 411,883**
Impact of master netting agreements	**(145,873)**	**(29,112)**	**(174,985)**
Replacement cost (after master netting agreements)	**180,520**	**56,378**	**236,898**
Replacement cost (after master netting agreements) – 2006	$ 185,491	$ 51,125	$ 236,616
Number of counterparties			
March 31, 2007	**5**	**2**	
March 31, 2006	7	3	

– 18 –

Interest Rate Sensitivity

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. BDC uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

The following table summarizes BDC's interest rate sensitivity position based on the difference between the carrying value of assets and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates. The effective yield represents the weighted average effective yield based on the earlier of contractual re-pricing and maturity dates.

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	2007
Assets								
Cash and cash equivalents	$ –	$ 733,696	$ –	$ –	$ –	$ 31,107	$ –	$ 764,803
Effective yield		4.29%						
Securities	–	–	50,000	25,018	–	89,248	–	164,266
Effective yield			4.34%	4.34%				
Loans, net of allowance for credit losses	6,377,800	119,654	266,167	1,436,865	641,159	286,500	(505,499)	8,622,646
Effective yield	8.54%	7.61%	7.76%	7.53%	7.20%			
Subordinate financing loans and investments	12,678	2,112	7,170	103,013	12,445	12,554	(1,682)	148,290
Effective yield	13.29%	15.05%	12.32%	12.46%	12.33%			
Venture capital investments	–	–	–	–	–	505,118	–	505,118
Derivative-related assets	–	–	–	–	–	442,368	–	442,368
Other assets	–	–	–	–	–	156,590	–	156,590
	$ 6,390,478	$ 855,462	$ 323,337	$ 1,564,896	$ 653,604	$ 1,523,485	$ (507,181)	$ 10,804,081
Liabilities and Shareholder's equity								
Short-term notes	$ –	$2,070,344	$ 606,566	$ –	$ –	$ 1,297,586	–	$ 3,974,496
Effective yield		4.19%	4.19%					
Long-term notes	–	–	–	189,824	554,509	3,509,038	–	4,253,371
Effective yield				3.87%	4.47%			
Derivative-related liabilities	–	–	–	–	–	530,302	–	530,302
Other liabilities	–	–	–	–	–	238,194	–	238,194
Shareholder's equity	–	–	–	–	–	1,807,718	–	1,807,718
	$ –	$2,070,344	$ 606,566	$ 189,824	$ 554,509	$ 7,382,838	$ –	$ 10,804,081
On-balance sheet gap 2007	$ 6,390,478	$(1,214,882)	$ (283,229)	$ 1,375,072	$ 99,095	$(5,859,353)	$ (507,181)	$ –
Off-balance sheet derivative instruments								
Position in Canadian dollars								
Receive side derivative financial instruments	$ –	$ 75,018	$ 40,000	$ 279,824	$ 554,509	$ 1,689,911	$ –	$ 2,639,262
Pay side derivative financial instruments	(130,000)	(2,328,223)	(156,021)	(25,018)	–	–	–	(2,639,262)
Total	$ (130,000)	$(2,253,205)	$ (116,021)	$ 254,806	$ 554,509	$ 1,689,911	$ –	$ –
Foreign currency								
Receive side derivative financial instruments	–	89,248	–	–	–	3,116,712	–	3,205,960
Pay side derivative financial instruments	–	(2,759,420)	(357,292)	–	–	(89,248)	–	(3,205,960)
Total	$ –	$(2,670,172)	$ (357,292)	$ –	$ –	$ 3,027,464	–	$ –
Total gap position 2007	$ 6,260,478	$(6,138,259)	$ (756,542)	$ 1,629,878	$ 653,604	$(1,141,978)	$ (507,181)	$ –
Total gap position 2006	$ 6,266,720	$(5,876,224)	$ (633,985)	$ 1,029,035	$ 474,154	$ (757,704)	$ (501,996)	$ –

– 19 –

Guarantees, Contingent Liabilities and Commitments

Guarantees

The various guarantees and indemnifications that BDC provides to its customers and other third parties are presented below.

Derivative instruments

As part of its financing operations, BDC has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meets the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $12,206 and is included in the consolidated balance sheet under derivative-related liabilities.

Indemnifications

In the ordinary course of business, BDC enters into many contracts which contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities.

Contingent liabilities

In 2004, representatives of BDC pensioners launched a class action claiming damages from BDC for allegedly breaching its fiduciary duty. BDC has meritorious response to these claims.

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the resultant aggregate liability would not be material.

Commitments

Undisbursed amounts of authorized loans and subordinate financing are approximately $1,020,702 at March 31, 2007. These commitments are for an average period of 3 months ($164,023 fixed rate; $856,679 floating rate). The effective interest rates on these commitments vary from 5.7% to 16.9%. These include BDC's share of undisbursed amounts of authorized joint venture financings which is approximately $18,296 at March 31, 2007. The undisbursed amounts of authorized venture capital investments approximated $146,698 at March 31, 2007.

Future minimum lease commitments under operating leases related to the rental of Bank premises are approximately as follows:

2008	$ 22,044
2009	21,478
2010	19,654
2011	16,072
2012	13,328
2013 and later	69,153
	$ 161,729

– 20 –

Pension and Other Employee Future Benefits

BDC offers defined benefit plans which provide pension, post-employment and post-retirement benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Post-retirement benefit plans include health, dental, and life insurance coverage.

During the year, BDC announced changes to the post-retirement benefit program which will be effective for eligible employees who retire on or after January 1, 2012. The new post-retirement benefits program provides for different provisions for health, dental and life-insurance coverage. The gain of $9.7 million generated by this modification was first used to eliminate the unamortized transitional obligation in effect at July 1, 2006. The excess of the gain is being amortized over the expected average remaining service period up to the full eligibility date of the active members, which was estimated as 5 years from July 1, 2006.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements, and has begun funding the supplemental pension plans in 2006. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes was performed at December 31, 2005 for the registered pension plan and December 31, 2006 for the supplemental pension plans. The next funding valuations will be performed at December 31, 2006 for the registered pension plan and December 31, 2007 for the supplemental pension plans. Other benefit plans are unfunded.

For 2007, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans was $42 million ($41 million in 2006).

A full discussion on how BDC's pension liability and expense are determined can be found in Note 2.

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Change in accrued benefit obligation						
Balance at beginning of year	**$549,087**	$ 457,473	**$ 47,300**	$ 38,587	**$ 121,420**	$ 100,205
Current service cost	**18,469**	16,981	**886**	745	**4,711**	4,514
Interest cost on benefit obligation	**29,279**	27,940	**2,484**	2,326	**6,049**	6,013
Employee contributions	**3,842**	1,889	**–**	–	**–**	–
Benefits paid	**(23,548)**	(21,365)	**(1,738)**	(1,128)	**(5,395)**	(5,496)
Past service gain	**–**	–	**–**	–	**(9,726)**	–
Actuarial loss (gain)	**5,831**	66,169	**6,261**	6,770	**(3,636)**	16,184
Balance at end of year	**582,960**	549,087	**55,193**	47,300	**113,423**	121,420
Change in fair value of plan assets						
Balance at beginning of year	**$531,714**	$ 481,233	**$ 2,744**	$ 2,995	**$ –**	$ –
Employee contributions	**3,842**	1,889	**–**	–	**–**	–
Employer contributions	**25,980**	16,356	**13,985**	853	**1,562**	–
Actual return on plan assets during the year	**51,926**	53,601	**196**	24	**–**	–
Benefits paid	**(23,548)**	(21,365)	**(1,738)**	(1,128)	**(1,562)**	–
Balance at end of year	**589,914**	531,714	**15,187**	2,744	**–**	–
Surplus (deficit) at end of year	**$ 6,954**	$ (17,373)	**$ (40,006)**	$ (44,556)	**$ (113,423)**	$ (121,420)
Employer contributions after measurement date	**5,708**	4,190	**9,317**	13,985	**133**	622
Unamortized transitional obligation (asset)	**(20,162)**	(33,603)	**1,349**	1,316	**–**	1,381
Unamortized past service gain	**–**	–	**–**	–	**(7,135)**	–
Unamortized net actuarial loss	**108,172**	125,427	**19,104**	13,799	**23,951**	28,909
Accrued benefit asset (liability) at end of year[1]	**$100,672**	$ 78,641	**$ (10,236)**	$ (15,456)	**$ (96,474)**	$ (90,508)

Net amount recognized in the consolidated balance sheet as "Other assets" or "Other liabilities", as appropriate

– 20 –

Pension and Other Employee Future Benefits (continued)

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006
Fair value of plan assets	**$ 15,187**	$ 2,744	**$ –**	$ –
Accrued benefit obligation	**55,193**	47,300	**113,423**	121,420

Pension and other post-retirement costs are included in Salaries and Benefits in Note 15 – Operating and Administrative Expenses and are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Defined benefit cost						
Current service cost	**$ 18,469**	$ 16,981	**$ 886**	$ 745	**$ 4,711**	$ 4,514
Interest cost on benefit obligation	**29,279**	27,940	**2,484**	2,326	**6,049**	6,013
Actual return on plan assets	**(51,926)**	(53,601)	**(196)**	(24)	**–**	–
Past service gain	**–**	–	**–**	–	**(9,726)**	–
Actuarial loss (gain) on benefit obligation	**5,831**	66,169	**6,261**	6,770	**(3,636)**	16,233
Costs arising in the period	**1,653**	57,489	**9,435**	9,817	**(2,602)**	26,760
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return on plan assets	**14,486**	20,350	**(237)**	(76)	**–**	–
Actuarial (gain) loss	**2,769**	(61,797)	**(5,068)**	(6,194)	**4,958**	(15,856)
Difference between amortization of past service gain and past service cost	**–**	–	**–**	–	**7,135**	–
Transitional obligation (asset)	**(13,441)**	(13,441)	**(33)**	(267)	**1,381**	197
Defined benefit cost for the year ended March 31	**$ 5,467**	$ 2,601	**$ 4,097**	$ 3,280	**$ 10,872**	$ 11,101

As at December 31, the fair value of assets in BDC's registered and supplemental pension plans are as follows:

Investment type	**2007**		2006	
Cash and short-term investments	**$ 5,345**	**0.9%**	$ 7,438	1.4%
Bonds	**218,318**	**36.1%**	204,310	38.2%
Common and preferred shares	**373,128**	**61.6%**	320,962	60.1%
Other assets less liabilities	**8,310**	**1.4%**	1,748	0.3%
Net assets available for benefits	**$ 605,101**	**100.0%**	$ 534,458	100.0%

– 20 –

Pension And Other Employee Future Benefits (continued)

The significant actuarial assumptions adopted in measuring BDC's accrued benefit obligations and annual benefit cost (weighted-averages) are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Discount rate at end of year	**5.25%**	5.25%	**5.25%**	5.25%	**5.25%**	5.25%
Significant actuarial assumptions used to determine the annual benefit cost						
Discount rate at beginning of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Expected long-term rate of return on plan assets[1]	**7.00%**	7.00%	**3.50%**	3.50%	**–**	–

The average rate of compensation increase is expected to be inflation which is assumed to be 2.75% (in 2006, 2.75%) plus 0.5% for productivity gains plus an adjustment for merit and promotion.

[1] The expected long-term rate of return on plan assets is calculated using assets valued at fair value.

For measurement purposes, costs trends were assumed to be:

- for medical costs related to drugs
  10% in 2007 reducing by 0.67% each year to 6% in 2013 and subsequent years
  (8% in 2006 reducing by 1% each year to 5% in 2009 and subsequent years);
- for other medical costs
  5% in 2007 reducing by 1% each year to 3% in 2009 and subsequent years
  (8% in 2006 reducing by 1% each year to 5% in 2009 and subsequent years); and
- for dental costs
  6% in 2007 reducing by 1% each year to 4% in 2009 and subsequent years
  (4% in 2006).

– 20 –

Pension And Other Employee Future Benefits (continued)

Sensitivity of Assumptions

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefits cost are summarized in the table below.

		Registered pension plan cost	Supplemental pension plans cost	Other plans cost
Increase (decrease) in				
Expected rate of return on assets				
Impact of:	1% increase	(5,349)	(62)	–
	1% decrease	5,349	62	–
Discount rate[1]				
Impact of:	1% increase	(12,736)	(739)	100
	1% decrease	16,311	865	14
Rate of compensation increase[1]				
Impact of:	0.25% increase	937	43	50
	0.25% decrease	(912)	(33)	(18)
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	1,068
	1% decrease	–	–	(771)
on the aggregate of the service and interest cost components of the post-retirement benefits other than pension cost for the period				
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	14,601
	1% decrease	–	–	(11,607)
on the post-retirement benefits (other than pension) accrued benefit obligation at March 31, 2007				

[1] *For other plans, excludes the impact on post-retirement benefits other than pension and post-employment benefits.*

– 21 –

Related Party Transactions

BDC is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. BDC entered into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

– 22 –

Comparative Financial Data

Certain comparative figures have been reclassified to conform to the presentation adopted in 2007.

The Board Reports on Corporate Governance

Our responsibility is stewardship. We ensure that BDC's activities are aligned with its statutory role, that it fulfills its public policy mandate in an ethical, efficient and effective way, and that it achieves its results within the boundaries of its mandate.

Except the president and CEO, we are all independent of management. None, except the president, are BDC employees. None are public servants. Many have first-hand knowledge of business and entrepreneurship. Together, we have a balanced mix of skills and experience needed for our stewardship role.

For us Board members, the central challenge is to manage the constant tension between BDC's mandate to support SMEs – an inherently high-risk endeavour – and its obligation to be commercially viable.

Our principal guides are parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

Like other Crown corporations, BDC is subject to other laws, such as the *Official Languages Act*, as well as regulations. BDC has always been subject to the *Access to Information Act*.

Crown corporations are the most audited organizations in the public sector. The Auditor General, jointly with an external audit firm, audits BDC every year. At five-year intervals, the Auditor General does a special examination of BDC. This examination, also done jointly with a private sector audit firm, is a performance audit. It goes beyond issues that are strictly financial to examine systems and practices related to economy, efficiency and effectiveness. BDC's next special examination will start in 2008.

Every year, Parliament receives a summary of BDC's corporate plan and its annual report.

We also look to Treasury Board of Canada, Secretariat, for guidance and expertise on public sector governance practices. In 2005, the President of the Treasury Board released the *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians*. The review is part of the government's stated desire to reassert the role of Crown corporations as instruments of public policy and to improve the effectiveness of their governance frameworks. It lists 31 measures to do the following:

] clarify the relationship between ministers and Crown corporations;

] clarify the accountability regimes of Crown corporations;

] make more transparent the appointment process for chairs, CEOs and directors;

] align the governance of Crown corporations with reforms in the private sector;

] strengthen the audit regimes of Crown corporations; and

] make more transparent the activities and operations of Crown corporations.

BDC meets or exceeds virtually all of these measures. In fiscal 2007, we worked on the two outstanding measures for which we have the authority to act.

We have made progress on BDC's internal control certification initiative, the goal of which is to enhance controls to improve the quality of information reported in BDC's financial statements and related disclosures. The initiative is proceeding on schedule.

We have begun planning BDC's first annual public meeting. We plan to hold this meeting in the coming year.

The final outstanding measure, related to directors' compensation, will first require a regulatory change by government.

We continuously monitor and upgrade our governance practices, and this year we approved a mandate that codifies the Board's role and responsibilities. This mandate is in line with the best private sector governance practices.

Within the parameters set by Parliament and Treasury Board of Canada, Secretariat, our key tasks are:

- approve BDC's strategic direction, corporate plan and priorities;
- ensure the highest standards of corporate governance policy and practice;
- ensure BDC has identified its principal risks and adopted the right systems to manage these risks;
- review and approve management's succession plan (a task that includes appointing and evaluating the performance of senior management);
- set objectives for, and assess performance of, the CEO;
- examine the effectiveness of BDC's internal control processes and management information systems to ensure the integrity of these processes and systems;
- oversee communications and public disclosure; and
- monitor BDC's pension plans, and establish its fund policies and practices.

The Board has a Code of Conduct that incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, directors affirm that they have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, are the subject of ongoing review to ensure they reflect current best practices. Possible conflicts of interest, if any, are disclosed through the Declaration of Conflict of Interest, which we accepted and implemented last year.

Much of the work that comes before us is initially examined by one of our five committees, all of which have defined mandates. We regularly review and revise the membership of these committees to ensure they reflect members' strengths and to create the most productive synergies.

All committees are independent of management, with one exception: the president, Mr. Halde, is a member of the Credit/Investment and Risk Committee. Members have appropriate levels of financial literacy. In fiscal 2007, the members of the Board, following the enhanced policy on orientation and continuous training, received detailed briefings on many of BDC's specialized activities.

If a member of Parliament, senator or director were to exert undue pressure in making a referral to a BDC employee, the BDC Referral Policy requires that this be reported to the Board of Directors. The person who made the referral is immediately informed in writing that client confidentiality supersedes all third-party involvement and that BDC retains sole authority for its decisions, based on objective criteria and its policies and practices.

The Employee Code of Conduct, Ethics and Values affirms BDC's fundamental values: ethics, client connection, team spirit, accountability and work/life balance. The code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, trust, fairness, objectivity, integrity, and corporate and individual responsibility.

BDC keeps current on best practices and reviews its code annually to improve its internal governance.
The code includes the following elements:

- compliance acknowledgement;
- the oath or solemn affirmation of office;
- the policy on personal trading for employees;
- the policy on disclosure of wrongdoing in the workplace; and
- the policy to promote a harassment-free workplace.

Overview of BDC Board Committees

Membership, meetings and a sample of important issues in fiscal 2007

Committee	Number of meetings	Members	Sample of Issues
Audit Committee	6	Chair: Stan Bracken-Horrocks Trevor Adey Christiane Bergevin Léandre Cormier Terry B. Grieve John Hyshka	reviewed quarterly audited financial statements and annual report, including management's discussion and analysis oversaw external auditors' independence, annual plan and report reviewed BDC Code of Conduct, Ethics and Values and issue reports oversaw internal audit team's annual plan and reports reviewed progress of Internal Controls Certification reviewed BDC's investment valuation policy
Credit/Investment and Risk Committee	29	Acting Chair: Terry B. Grieve Christiane Bergevin Stan Bracken-Horrocks Léandre Cormier Jean-René Halde Leo Ledohowski	reviewed limits in delegation of authorities revised signing authority resolutions for commercial transactions reviewed and recommended to the Board BDC's commitment to two investment funds: 1) AlterInvest II Fund L.P. ($165 million) and; 2) GO Capital SEC ($10 million) reviewed and approved 33 financing and venture capital investments reviewed performance and trends in the portfolios and discussed action plans quarterly, which included establishing principal risks and monitoring

Committee	Number of meetings	Members	Sample of Issues
Governance/ Nominating Committee	6	Chair: Vacant Cynthia Bertolin Stan Bracken-Horrocks Andrina Lever Jean Martel Kelvin Ng Valerie Payn	recommended Board mandate and reviewed the Terms of Reference of Board Committees reviewed selection criteria and job description for the role of Chairperson and President & CEO revised policy regarding the handling of referrals by members of Parliament, senators, ministerial staff and BDC directors
Human Resources Committee	5	Chair: Terry B. Grieve Trevor Adey Cindy Chan Léandre Cormier Leo Ledohowski Andrina Lever Kelvin Ng Valerie Payn	reviewed Human Resources Strategic Plan and oversaw significant changes in the composition of the senior management team reviewed compensation programs and payments reviewed appointment of Edmée Métivier as Executive Vice President responsible for BDC Financing and Consulting reviewed appointment of Paul Buron as Executive Vice President and Chief Financial Officer approved new post-retirement benefits structure to share costs with retirees
Pension Funds Investment Committee	4	Chair: Christiane Bergevin Cynthia Bertolin Cindy Chan John Hyshka Jean Martel Observer: Yves Millette	revised new investment policies for the supplementary retirement plans recommended pension description and trust agreement to reflect committee's new governance structure.

An ad hoc committee comprised of the chairs of these five committees has been formed to conduct a search for candidates for the position of Chairperson of the Board.

Board and Board Committee Meetings and Attendance

Director	Board Meetings	Audit	Credit/ Investment and Risk	Governance and Nominating	Human Resources	Pension Fund	Total Attendance	Percentage Attendance
Trevor Adey	5/9	2/6			2/5		9/20	45.00%
Christiane Bergevin	7/9	6/6	22/29			1/1	36/45	80.00%
Cynthia Bertolin	8/9			5/6		3/4	16/19	84.21%
Stan Bracken-Horrocks	8/9	5/6	26/29	5/6			44/50	88.00%
Cindy Chan	9/9				5/5	4/4	18/18	100.00%
Léandre Cormier	6/9	3/6	20/29		4/5		33/49	67.35%
Terry B. Grieve	9/9	6/6	28/29		5/5		48/49	97.96%
John Hyshka	7/9	4/6				2/4	13/19	68.42%
Leo Ledohowski	5/9	1/4	17/29			1/4	24/46	52.17%
Andrina Lever	9/9			6/6	4/5		19/20	95.00%
Jean Martel	5/5			1/2		1/1	7/8	87.50%
Kelvin Ng	9/9			4/6	5/5		18/20	90.00%
Valerie Payn	6/9			5/6	4/5		15/20	75.00%
Jean-René Halde	9/9		22/29				31/38	81.58%

Board of Directors

Trevor Adey
CEO, Consilient®
St. John's, Newfoundland and Labrador

Trevor Adey, who became a BDC director in April 2005, is CEO of Consilient®, a leader in push e-mail solutions for mobile phones and devices. Previously, he was Vice President of Sales and Business Development with Stratos, and Director of Sales with Infosat Telecommunications. Mr. Adey was named one of Canada's Top 40 Under 40™ in 2005 and Emerging Entrepreneur of the Year by Ernst and Young in 2004. Mr. Adey is Chairman of the Advisory Committee for Memorial University of Newfoundland's Faculty of Engineering and Applied Science. He is also a board member of Newfoundland Power and Memorial's Genesis Centre.

Christiane Bergevin
President, SNC-Lavalin Capital Inc.
Montréal, Quebec

Christiane Bergevin joined the BDC Board of Directors in June 2005. Ms. Bergevin is a seasoned executive with over 20 years of experience in domestic and international financing, acquisitions and partnerships. Since 2001, she has been President of SNC-Lavalin Capital Inc., a subsidiary of SNC-Lavalin, where she heads a team of finance professionals in Canada and Europe who have arranged over US$5 billion in financing in recent years. During her career, Ms. Bergevin has established strong ties with leading financial institutions and pension funds in Canada and abroad.

Cynthia Bertolin
President and owner, Sunrope Consulting Services Ltd.
Edmonton, Alberta

Cynthia Bertolin, who joined the BDC Board of Directors in March 2002, is a consulting barrister to Aboriginal peoples, industry and governments on Aboriginal rights, policy and business development issues. Ms. Bertolin is a national jurist for the Progressive Aboriginal Relations Program at the Canadian Council for Aboriginal Business. She has served as Vice-Chair of the National Aboriginal Economic Development Board and was the Chairperson for Apeetogosan Métis Development Inc., an Aboriginal financial institution.

Stan Bracken-Horrocks
President, SE Bracken-Horrocks Investments Ltd.
Vancouver, British Columbia

Stan Bracken-Horrocks, who joined the BDC Board of Directors in April 2005, is a retired partner at PricewaterhouseCoopers. A chartered accountant, he began at PricewaterhouseCoopers in 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is Past President of the Institute of Chartered Accountants. He has served on a number of boards of directors and is currently on the board of the Vancouver Police Foundation.

Cindy Chan
CEO,
InfoSpec Systems Inc.
Richmond, British Columbia

Cindy Chan joined the BDC Board of Directors in August 2005. Ms. Chan is the co-founder and CEO of InfoSpec Systems Inc., a software development company that has been ranked one of the top 100 technology companies in British Columbia. Ms. Chan was named the 2003 Ethel Tibbits Business Woman of the Year received the 2005 B.C. New Canadian Entrepreneur Award. She is actively involved in community services and charitable organizations such as the Richmond Chamber of Commerce and the Canadian Cancer Society. She holds a BSc from Simon Fraser University.

Léandre Cormier
President and owner,
West-Wood Industries Ltd.
Scoudouc, New Brunswick

Léandre Cormier became a director of BDC in August 2002. He is President and owner of West-Wood Industries Ltd., which produces high-end custom windows and doors, and other value-added wood products, for Canadian and U.S. markets. From 1987 to 2000, Mr. Cormier was the President and owner of Georgetown Timber Ltd., of Georgetown, Prince Edward Island.

Terry B. Grieve
Saskatoon, Saskatchewan

Terry B. Grieve was appointed Acting Chairman of the BDC Board of Directors in January 2007. A native of Saskatchewan, he joined the board in April 1996. Until December 2005, Mr. Grieve was a principal of Ventures West Management Inc., a private, professional venture capital management firm. He was also Executive Vice President of the Saskfund group of companies.

Jean-René Halde
President and Chief
Executive Officer,
BDC
Montréal, Quebec

Jean-René Halde joined BDC in June 2005. With over 35 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He is a member of the board of the Conference Board of Canada and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

John Hyshka
Chief Financial Officer and Chief Operating Officer, Phenomenome Discoveries Inc. Saskatoon, Saskatchewan

John Hyshka became a member of the BDC Board of Directors in May 2005. As CFO and COO of Phenomenome Discoveries Inc., a Canadian biotechnology firm he co-founded, he has raised over $20 million in equity and debt financing for a number of start-ups and small technology companies. Previously, he was Director of Economic Development for the Saskatoon Regional Economic Development Authority, responsible for the region's economic development programs and for promoting Saskatoon internationally.
Mr. Hyshka has been Chair of the Saskatchewan Government Growth Fund since 2003 and is an advisor to GrowthWorks on Saskatchewan deals.

Leo Ledohowski
President and CEO, Canad Inns Winnipeg, Manitoba

Leo Ledohowski joined the BDC Board of Directors in March 2005. He is President and CEO of Canad Inns, which owns and operates hotels in Winnipeg, Portage la Prairie and Brandon, Manitoba, as well as a new hotel under construction in Grand Forks, North Dakota. Previously, Mr. Ledohowski was a professor in the Faculty of Commerce at Carleton University in Ottawa and at the University of Manitoba. He is a certified hotel administrator and he has received the Distinguished Service Award from the University of Manitoba, as well as the Fellow of the Society of Management Accountants designation recognizing outstanding contributions to the profession.

Andrina Lever
President and CEO, Lever Enterprises Toronto, Ontario

Andrina Lever joined the BDC Board of Directors in June 2005. Ms. Lever has extensive experience in small business development, international commercial development, trade and governance. She is involved with Asia-Pacific Economic Cooperation and her work has taken her to more than 50 countries. She has been a member of the Bar of England and Wales as a barrister since 1980 and of the Bar of Victoria, Australia, as a barrister and solicitor since 1981. In addition to BDC, Ms. Lever sits on the boards of several non-profit organizations, as well as on the Board of Governors of York University.

Jean Martel
Lawyer, Lavery, de Billy Montréal, Quebec

Jean Martel joined the BDC Board of Directors in September 2006. He is a lawyer at the firm of Lavery, de Billy, in Montréal, where he has been practising financial and securities law since 1999. Previously, Mr. Martel served as Quebec's Assistant Deputy Minister of Finance and, from 1995 to 1999, chaired the Quebec Securities Commission. Mr. Martel sits on the board of TSX Group Inc., the public corporation operating the Toronto Stock Exchange and the Calgary-based TSX Ventures Exchange.

Kelvin Ng
President,
Ng North Inc.
Edmonton, Alberta

Kelvin Ng, who joined the BDC Board of Directors in April 2005, is President of Ng North Inc., a management consulting firm. He was a member of the Nunavut Legislative Assembly and served as Deputy Premier, Minister of Finance and Chair of the Financial Management Board. Mr. Ng also served in the Legislative Assembly of N.W.T. and held numerous portfolios in the N.W.T. government. He has served in municipal politics, and held positions in the private sector in chambers of commerce and in non-profit organizations. He has also received the Queen's Golden Jubilee Award.

Valerie Payn
President,
Halifax Chamber of Commerce
Halifax, Nova Scotia

Valerie Payn, who joined the BDC Board of Directors in March 2005, is President of the Halifax Chamber of Commerce, a position she has held since the chamber was formed in January 1995. Previously, she was the General Manager of the Halifax Board of Trade, making her the first woman to hold that position since its establishment in 1750. Ms. Payn holds an MBA from St. Mary's University in Halifax.

Senior Management Team

Jean-René Halde	Edmée Métivier	Jacques Simoneau	Louise Paradis	Paul Buron	Michel Bergeron	Mary Karamanos	Jérôme Nycz

From left to right around the table

Jean-René Halde
President and Chief Executive Officer

Jean-René Halde joined BDC in June 2005. With more than 35 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He is a member of the board of the Conference Board of Canada and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

Edmée Métivier
Executive Vice President, Financing and Consulting

Edmée Métivier joined BDC in 2000. She is responsible for strategies to sustain the growth of BDC Financing, BDC Consulting and Aboriginal banking, and oversees credit risk management. Previously, she was with the Royal Bank, where she held a number of operational positions, including Vice President, Small and Medium Enterprises. Ms. Métivier is Chair of the Board of Shad International, and a member of the Women's Y Foundation of Montréal and of the Desautels Faculty of Management Advisory Board at McGill University. She holds an MA in Practising Management from the University of Lancaster in England.

Jacques Simoneau
Executive Vice President, Investments

Jacques Simoneau joined BDC in April, 2006. He is responsible for the venture capital and subordinate financing portfolios. Previously, Mr. Simoneau was CEO of Hydro Québec Capi-Tech Inc., Senior Vice President, Investments at Fonds de solidarité FTQ and CEO of Société Innovatech du sud du Québec. He is a director of Transat A.T. Inc., Sustainable Development Technology Canada and Canada's Venture Capital and Private Equity Association. He is a member of Quebec's Conseil de la science et de la technologie and the University of Montréal's Faculty of Medicine's Advisory Committee. Mr. Simoneau is a professional engineer. He holds a MSc from Université Laval and a PhD from Queen's University.

Louise Paradis
Senior Vice President, Legal Affairs and Corporate Secretary

Louise Paradis joined BDC in 2004. She provides legal support to all our business units and to the Board of Directors. Previously, Ms. Paradis held managerial positions with Société Générale, the Canadian office of a major international bank, where she was responsible for legal affairs, human resources, the corporate secretariat and administration. She held the position of Director of Operations at Société Générale for two years. Ms. Paradis began her career at BDC as legal counsel. She holds an LLL from McGill University and is a member of the Barreau du Québec.

Paul Buron
Executive Vice President and Chief Financial Officer

Paul Buron joined BDC in October 2006. He is responsible for finance, systems and technology, treasury and enterprise risk management. Mr. Buron has acquired broad experience through leadership roles in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he was Senior Vice President and Chief Financial Officer. He holds a Bachelor's in Business Administration from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

Michel Bergeron
Vice President, Corporate Relations

Michel Bergeron joined BDC in 1999. He is responsible for strategic alliances, government relations, media relations, internal and external communications, and BDC branding. At BDC, Mr. Bergeron has held various field positions providing financing solutions to SMEs, as well as various corporate positions, such as Director, Corporate Planning, and Director, Strategic and Business Solutions. Previously, Mr. Bergeron was an international trade economist with Finance Canada and Industry Canada in Ottawa. A lawyer by profession, he holds an MA in International Relations.

Mary Karamanos
Senior Vice President, Human Resources

Mary Karamanos, who joined BDC in 2002, is responsible for developing and implementing BDC's human resources strategy. She has more than 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine, U.S.A. She holds a BA in Industrial Relations from McGill University and the Certified Compensation Professional designation from World at Work. She is active in the community and supports a number of children's charities.

Jérôme Nycz
Vice President, Strategy and Planning

Jérôme Nycz joined BDC in 2002. He is responsible for BDC's strategic and public policy frameworks and its SME research agenda, as well as strategic corporate projects and the Research and Information Centre. Previously, he held various positions within the federal government, including Senior Economist and Policy Analyst for Finance Canada, Industry Canada and National Defence. He has also worked at Export Development Canada and for Foreign Affairs and International Trade Canada. M. Nycz is a member of the board of CIRANO and has an IMBA from Hartford University.

Five-Year Operational & Financial Summary

for the years ended March 31 ($ in thousands)

Operational Statistics	2007	2006	2005	2004	2003
BDC Financing*					
Committed to clients *as at March 31*					
Amount**	**$ 10,115,995**	$ 9,515,927	$ 8,852,856	$ 8,166,092	$ 7,426,324
Number of clients	**26,643**	25,497	24,048	22,423	21,353
Authorizations					
Net amount	**$ 2,586,489**	$ 2,462,032	$ 2,230,194	$ 2,034,452	$ 1,982,457
Number	**9,079**	8,402	7,457	7,212	6,271
BDC Subordinate Financing					
Committed to clients *as at March 31*					
Amount**	**$ 168,725**	$ 160,246	$ 161,290	$ 187,067	$ 168,455
Number of clients	**316**	305	321	373	380
Authorizations					
Net amount	**$ 53,572**	$ 47,126	$ 36,394	$ 48,195	$ 49,450
Number	**112**	104	66	56	55
BDC Venture Capital					
Committed to clients *as at March 31*					
Amount**	**$ 747,857**	$ 654,876	$ 604,389	$ 490,736	$ 429,755
Number of clients	**192**	193	202	170	164
Authorizations					
Net amount	**$ 150,733**	$ 140,016	$ 143,119	$ 108,812	$ 92,689
Number	**71**	83	80	70	61

Performance Indicators	2007	2006	2005	2004	2003
Client satisfaction level	**93%**	92%	93%	91%	91%
Employee engagement level	**80%**	78%	74%	77%	76%
Efficiency ratio***	**50.2%**	48.9%	48.5%	48.7%	47.8%
Financing and Subordinate Financing portfolio	**$ 9,279,586**	$ 8,775,777	$ 8,066,012	$ 7,465,194	$ 6,721,375
Return on common equity	**8.5%**	9.2%	9.7%	5.1%	2.7%
BDC Venture Capital 10-year IRR – Total investments	**(0.8)%**	1.5%	5.6%	13.1%	16.3%
BDC Consulting revenue	**$ 23,523**	$ 21,570	$ 18,924	$ 20,006	$ 18,221

* *Excludes BDC Subordinate Financing.*
** *Includes principal, protective disbursement and undisbursed outstanding.*
*** *Includes both BDC Financing and BDC Subordinate Financing.*

Five-Year Operational & Financial Summary

($ in thousands)

Financial Information	**2007**	2006	2005	2004	2003
Statement of Income					
for the years ended March 31					
Net income (loss)					
Financing*	**$ 167,992**	$ 141,060	$ 163,700	$ 86,805	$ 98,631
Subordinate Financing	**7,945**	13,682	8,818	5,750	(4,124)
Consulting	**(4,326)**	(3,782)	(2,887)	(3,135)	(3,142)
Venture Capital	**(33,604)**	(12,779)	(56,143)	(30,299)	(59,485)
Net income	**$ 138,007**	$ 138,181	$ 113,488	$ 59,121	$ 31,880
Balance Sheet					
as at March 31					
Loans, net of allowance for credit losses	**$ 8,622,646**	$ 8,129,880	$ 7,445,861	$ 6,813,344	$ 6,164,178
Subordinate financing loans and investments	**$ 148,290**	$ 143,901	$ 136,977	$ 164,200	$ 124,458
Venture capital investments	**$ 505,118**	$ 431,379	$ 383,649	$ 345,624	$ 301,945
Total assets	**$ 10,804,081**	$ 10,311,423	$ 9,445,161	$ 8,809,218	$ 7,791,359
Total Shareholder's equity	**$ 1,807,718**	$ 1,691,277	$ 1,569,569	$ 1,218,459	$ 1,170,017
Total liabilities	**$ 8,996,363**	$ 8,620,146	$ 7,875,592	$ 7,590,759	$ 6,621,342

* *Excludes BDC Subordinate Financing.*

Glossary

Allowance for Credit Losses

Represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

Change in Unrealized Appreciation and Depreciation of Investments

Amount included in income resulting from movements in the fair value of investments for the period.

Consulting Revenue

Fees from services provided by BDC's national network of consultants to assess, plan and implement results-driven, cost-effective management solutions.

Cross-Currency Swaps

Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-Equity Ratio

A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the total shareholder's equity. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative Financial Instruments

Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct Investments

Investments made by BDC directly in investee companies.

Efficiency Ratio

A measure of the efficiency with which BDC incurs expenses to generate income on its financing and subordinate financing operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income (includes realized gains or losses on disposals of subordinate financing investments). A lower ratio indicates improved efficiency.

Fair Value

The amount of the consideration that would be agreed on in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents management's best estimate of the net worth of an investment at the balance sheet date and may not reflect the ultimate realizable value upon disposition of the investment.

General Allowance

Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the balance sheet date but have not yet been specifically identified on an individual loan basis.

Hedging

A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired Loans

Loans where, in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Interest Rate Swaps

Agreements to exchange streams of interest payments – typically, one at a floating rate and the other at a fixed rate, over a specified period, based on notional principal amounts.

Master Netting Agreement

A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts relating to sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Realized Net Gains on Disposals of Investments

Gains realized, net of realized capital losses, upon sale or disposition of investments, excluding the change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Net Interest and Other Income

The difference between what is earned on financing and subordinate financing portfolio assets and securities, and what is paid on borrowings, excluding the change in unrealized appreciation or depreciation of subordinate financing investments. (This also includes realized gains or losses on disposals of subordinate financing investments.)

Net Margin

Net interest and other income from the financing portfolio, expressed as a percentage of the total average financing portfolio.

Performing Portfolio

Loans for which there is reasonable assurance of the timely collection of principal and interest.

Permanent Impairment

A situation in which, in management's opinion, one or more of the following conditions apply to an investment: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; or (v) material negative deviation from budget or plan. Permanent impairment reflects not only financial data, but also qualitative data about an investee and all aspects of its business, including its product, markets and technology.

Provision for Credit Losses

A charge to income that represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on Common Equity (ROE)

Net income, less preferred share dividends, expressed as a percentage of average common equity.

Specific Allowance

Established by management to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the balance sheet date.

Subordinate Financing

A hybrid instrument that brings together some features of both debt financing and equity financing.

Subordinate Financing Investments

BDC's portfolio of subordinate financing held through its joint ventures with the Caisse de dépôt et placement du Québec, AlterInvest L.P., AlterInvest Fund II L.P. and AlterInvest Inc.

Variable Interest Entity (VIE)

An entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or an entity in which the holders of the equity at risk lack the characteristics of a controlling financial interest.

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Ce document est aussi disponible en français.

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BDC

2008 ANNUAL REPORT

REALATIONSHIPS

"WE SELL CHAIRS TO THE WORLD. BDC IS HELPING US."

Mike Keilhauer
President
Keilhauer
Scarborough, Ontario
BDC client since 1994

"We wanted a new building that reflected our image and competence as an upscale office furniture design company. BDC helped us finance that initiative. They understood that our project was not just another building – it represented our brand. Over the years, we've focused our efforts on developing the North American market, exporting largely to Fortune 500 companies. As these businesses expand throughout the world, we've been able to access the global market."

— **Mike Keilhauer**

Canadä

REAL CHALLENGES
THE COMPETITIVE ENVIRONMENT

97.5%
ARE SMALL

THERE ARE MORE THAN ONE MILLION EMPLOYER BUSINESSES IN CANADA

Industry Canada's definition of small and medium-sized enterprises (SMEs)
a small enterprise has up to 99 employees
a medium-sized enterprise has 100 to 500 employees

2.2%
ARE MEDIUM-SIZED

In general, and compared to most countries, Canada remained in fiscal 2008 a healthy place to create and grow businesses. We continued to enjoy one of the fastest growth rates and highest living standards among industrialized countries. We had a fiscal surplus, a declining public debt and historically low inflation.

But last year also saw uncertainty. Market liquidity shrank, reducing the availability of affordable money. The rise in the value of the Canadian dollar hampered exporters' ability to export. Financial markets made it hard for companies to raise capital at attractive prices. Most businesses were affected; many were strained to stay competitive.

0.3%
ARE LARGE

A COMPLEX, CHANGING AND TOUGH ENVIRONMENT

A GLOBAL ECONOMY

Larger, more productive workforces and growing middle classes in countries such as China and India are a threat and an opportunity for Canada's entrepreneurs. New global supply chains are an unavoidable feature of the globalized economy; entrepreneurs must enter them and compete.

RAPIDLY RISING AND STRONG CANADIAN DOLLAR

Our strong dollar makes manufactured goods and services more expensive for foreigners to buy. But it does reduce the cost of importing machinery and equipment that enhance productivity.

AN ECONOMIC SLOWDOWN IN THE UNITED STATES

Canada exports half of its services and three quarters of its goods to America. The 2008 slowdown in the American economy will inevitably be felt in Canada as American consumers buy less.

AN AGING POPULATION

Canada's greying population makes it harder for entrepreneurs to find qualified employees. Entrepreneurs are aging, too, and must find younger entrepreneurs and business managers to whom they can sell their businesses.

HIGH ENERGY COSTS

All businesses need energy to function, and not all energy cost increases can be handed on to consumers. Entrepreneurs must adapt their business models and operations to be more energy efficient.

WHAT WE DO

We promote entrepreneurship by providing financing, investments and consulting to Canada's entrepreneurs.

WHY WE DO IT

When entrepreneurs succeed, they make an irreplaceable contribution to Canada's economy. The result is greater prosperity.

WHO WE ARE

We are Canada's small business development bank, created by and accountable to Parliament.

OUR VISION

Accelerate entrepreneurs' success.

OUR MISSION

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial, venture capital and consulting services.

CHAIRMAN'S MESSAGE

REALSTEWARDSHIP

BDC IS NOW SERVING 28,000 ENTREPRENEURS. THESE ENTREPRENEURS STRENGTHEN CANADA'S ECONOMY.

I joined the Board of Directors of BDC in August 2007. It was an honour to become part of the only financial institution in the country that is solely dedicated to supporting entrepreneurship.

As directors, we are stewards, accountable to Parliament through the Minister of Industry. We oversee BDC to ensure that it does what it was created to do: promote entrepreneurship by supporting small and medium-sized businesses in a way that complements the services other financial institutions offer. We ensure that it does so effectively, responsibly and efficiently.

Our role is to:

- approve BDC's strategic direction and corporate plan, and monitor progress;
- set performance targets and monitor progress;
- ensure that BDC is identifying and managing its risks;
- establish compensation policies, and review and approve management's succession plan (a task that includes approving the appointment of senior managers and evaluating their performance);
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure;
- oversee BDC's pension plans, and establish its fund policies and practices; and
- ensure the highest standards of corporate governance.

We are committed to achieving excellence in governance for BDC. I encourage you to read our board report on page 78. It outlines the principal statutes, structures, systems and practices that rule BDC, as well as the highlights of our accomplishments last year.

BDC had an excellent year in terms of its public policy mandate: it provided support to an increasing number of Canadian businesses.

OUR FOCUS IS STRATEGIC: BDC IS DEDICATED TO HELPING ENTREPRENEURS TACKLE THEIR CHALLENGES AND EXPLOIT THEIR OPPORTUNITIES.

There are many such challenges; the past year saw increased competition from other countries, a sudden rise in the value of the Canadian dollar, a tightening of credit conditions triggered by the asset-backed commercial paper crisis, higher energy costs and a slowing American economy. It also saw continued problems in Canada's crucial but fledgling venture capital industry.

The past year also saw opportunities: opportunities to enter global supply chains and markets, opportunities to use the strong Canadian dollar to invest in productivity, and opportunities to innovate and commercialize research.

BDC operated profitably in fiscal 2008 but financial results were mixed. Financing and Subordinate Financing were profitable. Consulting operated at a loss that was as budgeted.

The venture capital portfolio had a significant loss. Canada's economy needs venture capital investments; they are an important public policy imperative. But they are also inherently highly risky. BDC's venture capital loss is partly rooted in – and in some ways a barometer of – Canada's deeply troubled venture capital industry.

BDC is a flexible, efficient arm of public policy; we look to management to ensure that it continues to support entrepreneurs who need venture capital. However, we also look to management to ensure that BDC does so in a way that protects its own commercial viability.

I would like to acknowledge those of our colleagues who left the Board during fiscal 2008: Trevor Adey, Léandre Cormier, Leo Ledohowski and Valerie Payn. My colleagues and I thank them for their contribution and wish them well. We would also like to welcome three new members: Eric Boyko, Rick Perkins and Thomas R. Spencer.

Also, just after year-end, three of our members departed: Cynthia Bertolin, Andrina Lever and Kelvin Ng. We appreciate their hard work and wish them all the best. They have been succeeded by Sue Fawcett, Sarah Raiss and Rosemary Zigrossi.

Finally, I wish to thank Parliament for the privilege of serving on the Board of BDC. Being part of its contribution to Canadian society is an honour as well as a responsibility.

John A. MacNaughton
Chairman

PRESIDENT'S MESSAGE

REALDEVELOPMENT

REAL IMPACT BDC FINANCING

Pierre Paschini
President and Chief Operating Officer
ADF Group Inc.
Terrebonne, Quebec
BDC client since 1997

"We're a North American leader in the design, engineering, fabrication and installation of complex steel superstructures, such as the Goldman Sachs world headquarters in New York. Like most businesses, we've had challenging periods with cash flow. BDC has always gone the extra mile for us. They showed their flexibility by adjusting our loan payment schedule. BDC believed in our management team. Today, we're in full swing and rapidly growing."

REAL IMPACT
BDC FINANCING

Rod Nicolls
Operations Manager
Nicole Stefenelli
President
Urban Impact Recycling Ltd.
Richmond, B.C.
BDC client since 2000

"We wanted to work with an organization that shared our passion for innovation. From the get-go, BDC saw our potential as an innovative company that is helping conserve our planet's resources. When it comes to financing, BDC always delivers creative solutions."

WE SUCCEED WHEN OUR CLIENTS SUCCEED. THE RESULT: GREATER PROSPERITY FOR CANADA.

Ambitious, risk-taking entrepreneurs are the basis of a vital, healthy economy. To succeed, they need support from advisors, accountants and lawyers. To meet financial needs, they seek financial sector partners. BDC is one of these.

We offer financing, investments and consulting that are driven by their needs as entrepreneurs – support of the highest standard possible. I trust you will find this report answers your questions about how we are doing so effectively, responsibly and efficiently.

Our financing services complement those of private sector financial institutions. We are commercially viable and do not receive an annual subsidy from Parliament.

ENTREPRENEURS

We are Canada's small business development bank. We are reaching 28,000 entrepreneurs across the country – helping them with their projects, helping them innovate and supporting them through unexpected strains such as the tightened credit conditions that characterized much of the past year.

Our clients value our services. Their satisfaction rate, measured by a third-party survey, is 93%.

We provide innovative small business financing, paying special attention to start-ups, innovators, fast growth companies, manufacturers and exporters who face lower financing approval rates. We offer support services to the growing number of entrepreneurs who will be retiring and selling their businesses to other, younger entrepreneurs. We help Canadian companies become more globally competitive.

We pay particular attention to entrepreneurs who are working to commercialize the fruits of research and development – university or lab discoveries – to create innovative products and globally successful companies. Canada needs globally successful SMEs that specialize in sectors such as life sciences and information technology. Commercializing innovative ideas is complex, difficult and *very* risky; success takes years, millions of dollars and a sequenced range of separate, sophisticated skills. Hence our support.

FINANCIAL SUSTAINABILITY

We had strong results in Financing and Subordinate Financing, expected results in Consulting and a higher than expected loss in our venture capital portfolio, a reflection of the difficult period that this industry is enduring.

Our total portfolio is $10.6 billion. Most of this, $10.0 billion, is in loans; it also includes $156 million in subordinate financing and $476 million in venture capital equity investments. Our consulting revenues reached $24.8 million this year.

Our return on common equity was 4.7%. This will enable a dividend payment of $16.5 million to our sole shareholder, the Government of Canada. Since 1997, we have also paid $140.2 million in dividends.

EMPLOYEES

We were pleased to receive several awards last year, notably for our human resources practices. We are out to create the most attractive workplace and effective team possible, and thereby provide strong support for entrepreneurs. Awards are third-party validation that we are, to a significant degree, succeeding in doing so. I invite you to read more at www.bdc.ca.

THE BDC TEAM

I continue to be impressed by the talent, professionalism and dedication of the BDC team. Parliament can count on its effective, responsible and efficient support of Canada's entrepreneurs.

Jean-René Halde
President and Chief Executive Officer

KEY PERFORMANCE INDICATORS AND OBJECTIVES **REAL**PERFORMANCE

We turn our strategies into balanced performance measurements.

CLIENTS

Create a unique and valued relationship with Canadian entrepreneurs, so that we can support their business projects and accompany their growth (measured by client satisfaction).

EMPLOYEES

Foster a culture of engagement, learning and growth (measured by employee engagement).

EFFICIENCY

Maintain effective and efficient operating and administrative expenses as a percentage of net interest and other income (measured by the efficiency ratio).

FINANCIAL SUSTAIN-ABILITY

Fulfill our mandate: be profitable to fund the growth of our portfolio, generate a return on common equity (ROE) at least equal to the government's average long-term cost of capital and be able to withstand unfavourable economic circumstances without requiring government funding (measured by ROE).

CLIENT SATISFACTION

We offer our clients tailored financial services, information and advice. Our emphasis on helpful, long-term relationships has produced an overall client satisfaction rating of 93%.

PERFORMANCE

2009 OBJECTIVE

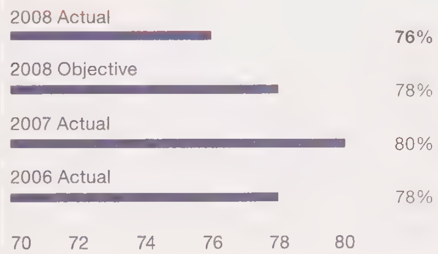
91%

- An increase of 1 percentage point from 2008 objective.

EMPLOYEE ENGAGEMENT

We seek employees whose skills, professional effectiveness and dedication to our mandate will ensure that our clients are well served. Our employee engagement level is 76%. This is a 4 percentage point decline from fiscal 2007 but is on par with the most recent engagement scores among best employers.

PERFORMANCE



2009 OBJECTIVE

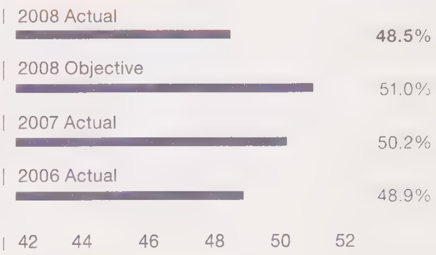
80%

- An increase of 2 percentage points from 2008 objective.

EFFICIENCY RATIO*

Our efficiency ratio of 48.5% is 2.5 percentage points better than the 2008 objective, due in part to lower operating and administrative expenses as a result of management's focus on cost containment and improvements in lending processes.

PERFORMANCE



2009 OBJECTIVE

50.1%

- An improvement of 0.9 percentage points from 2008 objective.

* *The lower the ratio, the greater the efficiency.*

OUTSTANDING BDC FINANCING PORTFOLIO

$ in billions

The BDC Financing loan portfolio rose by $0.9 billion to $10.0 billion, due to $2.9 billion in loan acceptances and a net increase of nearly 800 entrepreneurs benefiting from our expertise and support.

PERFORMANCE/ FINANCIAL SUSTAINABILITY

2009 OBJECTIVE

$10.4 B

- Grow the portfolio by $0.4 billion from the result achieved in fiscal 2008.

BDC CONSULTING REVENUE

$ in millions

At $24.8 million, this figure is $1.2 million short of our objective, but 5.5% higher than last year.

PERFORMANCE/ FINANCIAL SUSTAINABILITY

2009 OBJECTIVE

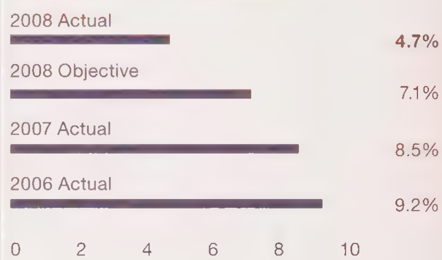
$26 M

- Offer entrepreneurs tailored, quality services at a price they can afford.

RETURN ON COMMON EQUITY (ROE)

Our ROE of 4.7% is lower than both our objective of 7.1% and last year's 8.5%. The shortfall is due to the loss in our venture capital portfolio. However, our ROE remains higher than the government's average long-term cost of capital of 4.0%.

PERFORMANCE/ FINANCIAL SUSTAINABILITY



2009 OBJECTIVE

6.3%

- Exceed the government's estimated average long-term cost of capital of 3.2%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

BDC regularly makes written and oral forward-looking statements in its annual report, in press releases and in other communications. These forward-looking statements include statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. These give rise to the possibility that predictions, forecasts, projections and other elements of forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed. These factors include credit, market, operational and other risks identified and discussed in the risk management section; interest rate fluctuations; opportunities to complete successful divestitures of investments; and changes in accounting standards, policies and estimates.

1.

ROLE, STRATEGY AND ACTIVITIES

1,700
EMPLOYEES

94
BRANCHES ACROSS CANADA

4
BUSINESS LINES

1
MANDATE

SUPPORT CANADIAN ENTREPRENEURS

AN APPETITE FOR RISK:

Entrepreneurs need partners who share their willingness to take risks.

BDC SUPPORTS RISK.

CREDIT STABILITY:

Entrepreneurs need partners they can count on long term.

BDC IS PATIENT.

WHEN THEY SUCCEED, ENTREPRENEURS MAKE AN IRREPLACEABLE CONTRIBUTION TO CANADA'S ECONOMY.

BDC IS HERE TO HELP THEM SUCCEED.

Pierre Lauzon / Manager, Major Accounts
Bettie Johnston / Partner, Consulting
Stephen Korte / Vice President, Enterprise Risk Management
Susan Rohac / Managing Director, Subordinate Financing
Gary Bantle / Director, Venture Capital

ROLE

In 1995, Parliament passed the *Business Development Bank of Canada Act*. The Act created BDC to promote entrepreneurship by providing complementary financing and consulting services, giving particular consideration to the needs of small and medium-sized enterprises.

BDC FINANCING

for the years ended March 31

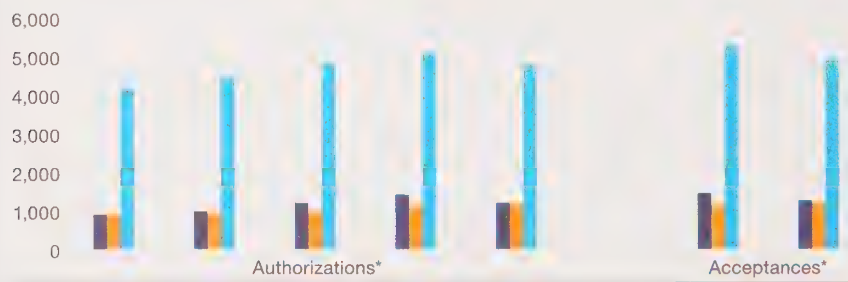
Entrepreneurs seek financing support for their projects.

	Authorizations* 2004	2005	2006	2007	**2008**	Acceptances* 2007	**2008**
Amount ($ in millions)	2,034	2,230	2,462	2,586	**2,814**	2,692	**2,907**
Number	7,212	7,457	8,402	9,079	**8,921**	9,394	**9,143**

BDC FINANCING: SUPPORT TO FIRMS AT START-UP, DEVELOPMENT AND EXPANSION STAGES

for the years ended March 31 (number)

BDC's financing is designed to protect working capital and is thus often sought by fast-growing firms.



	Authorizations* 2004	2005	2006	2007	**2008**	Acceptances* 2007	**2008**
Start-up	917	993	1,217	1,438	**1,229**	1,474	**1,291**
Development	901	905	959	1,123	**1,186**	1,149	**1,207**
Expansion	4,238	4,501	4,907	5,145	**4,836**	5,336	**4,958**

* Clients accept financing after BDC authorizes it. There is sometimes a delay between the two. This explains why, in subsequent years, acceptances may exceed authorizations.

REAL
IMPACT
BDC
FINANCING

Barry Williams, Business Manager *(third from the left)*
with co-owners and management staff

Modern Industrial Structures Inc.

Saskatoon, Saskatchewan

BDC client since 2007

"As a start-up, we needed to ramp up our capacity to produce re-locatable trailers. BDC gave us top-notch advice to improve our operational efficiency. Our partnership with BDC has helped us drive exponential growth. In the last year, we've gone from $1.9 million to $16 million in sales. That's quite an achievement for a newcomer."

REAL IMPACT
BDC SUBORDINATE FINANCING

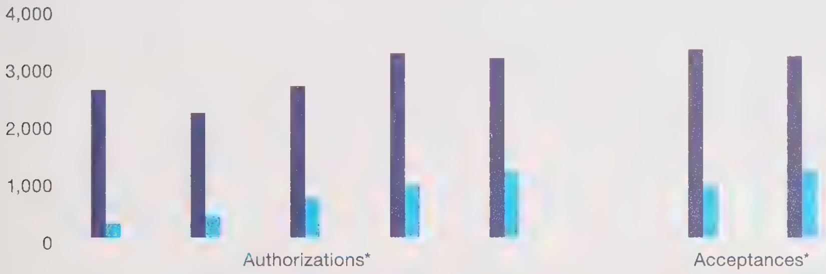
Troy Lupul
President
FilterBoxx
Calgary, Alberta
BDC client since 2007

"We had a huge demand for our packaged water treatment solutions and were outstripping our capital. That's when BDC stepped in. They proposed subordinate financing, which helped us protect our equity position in the company. Today, we're building the largest water treatment plant for the Canadian Forces in Afghanistan. BDC's confidence in us is paying off."

BDC FINANCING BY PRIMARY LOAN PURPOSE

for the years ended March 31 (number)

BDC offers working capital to finance growth projects. It also offers support to retiring entrepreneurs who are selling their businesses, as well as to those who are buying businesses from exiting entrepreneurs.

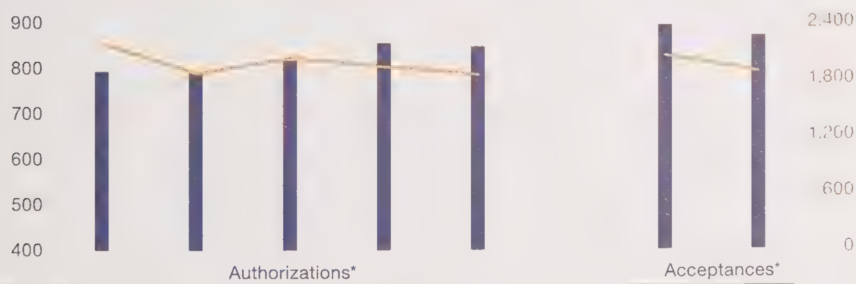


	2004	2005	2006	2007	**2008**	2007	**2008**
Working capital	2,618	2,208	2,686	3,270	**3,188**	3,346	**3,230**
Change of business ownership	258	381	698	923	**1,190**	936	**1,213**

BDC FINANCING: SUPPORT TO EXPORTERS

for the years ended March 31

BDC has been supporting small business exporters for decades. About a third of our financing goes to them.



	2004	2005	2006	2007	**2008**	2007	**2008**
Amount ($ in millions)	794	793	818	856	**848**	895	**872**
Number	2,192	1,877	2,041	1,948	**1,865**	2,065	**1,897**

We fulfill our mandate by providing entrepreneurs with tailored financing, investments and consulting. Their needs as entrepreneurs drive our support – support of the highest standard possible.

Our organizational structure mirrors our services: BDC Financing, BDC Subordinate Financing, BDC Consulting and BDC Venture Capital.

We are responsible. Our primary responsibility to Canadian society is to support its entrepreneurs. We do so as effectively and efficiently as possible, using exemplary corporate governance and business practices. We are also environmentally responsible. Since 1991, our environmental risk policy has guided our decisions. And since 2006, we have also complied with the *Canadian Environmental Assessment Act*. Our goal is to ensure that we do not fund projects that might cause a significant adverse impact on the environment.

BDC has existed, under different names and with evolving public policy mandates, since 1944. To learn more, visit www.bdc.ca.

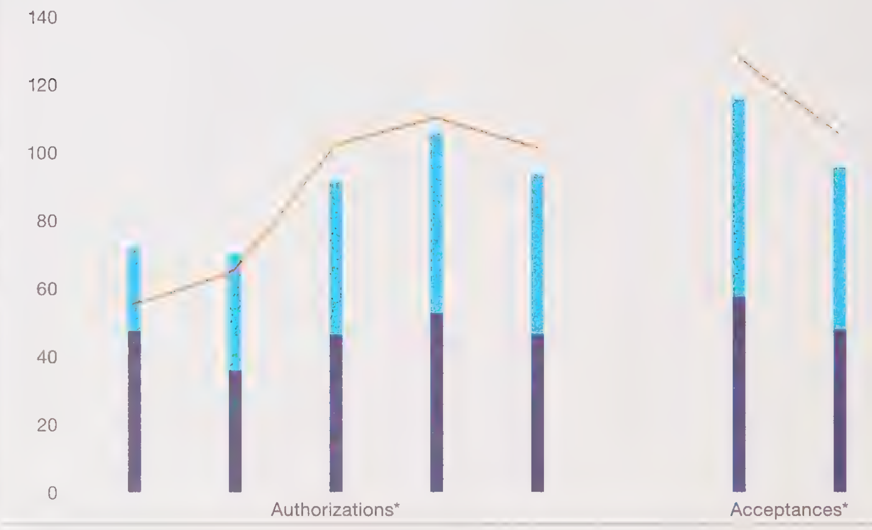
WE OFFER SUPPORT FOR BUSINESS EXPANSION

For entrepreneurs who need working capital to grow their businesses but do not have the tangible security that conventional lenders require, or who do not want to dilute their ownership of the firm, we offer a type of hybrid financing that combines debt and equity: subordinate financing.

We anchor this service in a partnership with the Caisse de dépôt et placement du Québec (the Caisse). This year, BDC Subordinate Financing received $97 million in acceptances (this includes the Caisse portion).

BDC SUBORDINATE FINANCING

for the years ended March 31



	Authorizations* 2004	2005	2006	2007	**2008**	Acceptances* 2007	**2008**
Amount – BDC portion ($ in millions)	48.2	36.4	47.1	53.6	**47.4**	58.4	**48.7**
Amount – Caisse portion ($ in millions)	25.0	35.3	46.0	54.1	**47.9**	59.4	**48.7**
Amount – Total ($ in millions)	73.2	71.7	93.1	107.7	**95.3**	117.8	**97.4**
Number	56	66	104	112	**103**	130	**107**

WE OFFER SUPPORT FOR MORE SKILFUL BUSINESSES

Entrepreneurs face many competitive challenges. BDC Consulting offers them tailored, high-quality consulting services at a price they can afford. Our goal is to help create more skilful, competition-ready businesses. In fiscal 2008, we started 2,770 consulting mandates. This is a 13% increase from last year.

BDC CONSULTING MANDATES

for the years ended March 31 (number)

2004	2005	2006	2007	**2008**
1,909	1,886	2,037	2,451	**2,770**

* Clients accept financing after BDC authorizes it. There is sometimes a delay between the two. This explains why, in subsequent years, acceptances may exceed authorizations.

REAL IMPACT BDC CONSULTING

Carla Row
Office Manager
Eastern Industrial Sales & Service
St. John's, Newfoundland
BDC client since 2007

"We are an electrical supply company for offshore oil and gas, marine, and heavy industries. Recruiting in our field is very competitive, so we went to BDC Consulting for help in hiring for a key sales position. Their experience was invaluable. It's no surprise that we gave BDC repeat business."

REAL
IMPACT
BDC
VENTURE CAPITAL

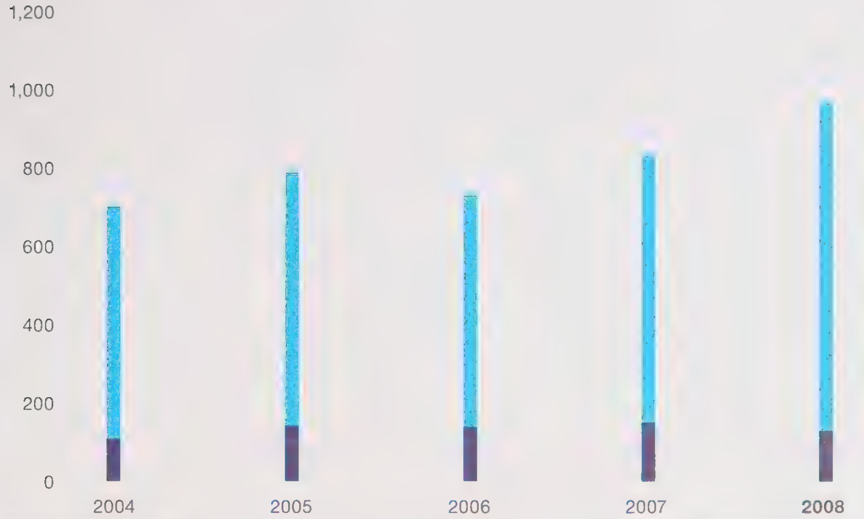
*BACK COVER

Gervais Dionne, PhD
Chief Executive Officer and Chief Scientific Officer
ViroChem Pharma Inc.
Laval, Quebec
BDC client since 2003

"The need to treat viral diseases such as hepatitis C and HIV infection/AIDS is urgent. Our company is at the forefront of research in this field, and BDC has always shown confidence in our potential to break ground. Beyond providing us with vital venture capital, BDC backed us from day one. They understand what it takes to grow an R&D-focused company and bring products to market."

TOTAL VALUE OF BDC VENTURE CAPITAL PROJECTS FINANCED

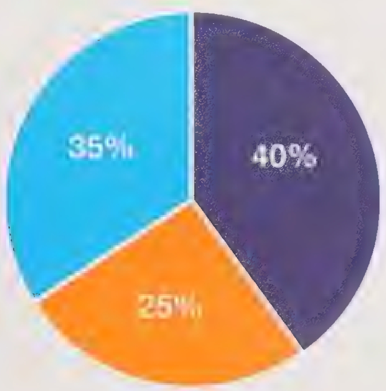
for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	2008
BDC Venture Capital authorizations and acceptances	109	143	140	151	**130**
Other sources of investment	598	652	598	690	**848**
Total	707	795	738	841	**978**

BDC VENTURE CAPITAL DIRECT INVESTMENTS AUTHORIZED, BY STAGE OF DEVELOPMENT

for the year ended March 31, 2008 (percentage of dollar value)



- Start-up or seed
- Development
- Expansion

WE SUPPORT COMMERCIALIZATION

We support entrepreneurs who are turning new ideas and technology into attractive products and successful companies. Successful commercialization is vitally important to the national economy and thus a crucial public policy goal for our shareholder, the Government of Canada. The venture capital industry is enduring a particularly difficult period. Hence our support.

We are a Canadian leader in the critically important early-stage (including seed) investment phase. In fiscal 2008, we made 75% of the dollar value of our direct investments in early-stage firms. That figure compares with the industry average of 33%.

This past year, direct seed investments in Canada totalled $56.7 million. BDC contributed $9.3 million of this total in 11 seed ventures.

Over 40% of our direct venture capital portfolio companies originated and developed in universities and labs. These companies need BDC's expertise and long-term commitment.

In fiscal 2008, BDC Venture Capital authorized 85 direct investments totalling $105 million. In addition, we also authorized $25 million in investment in two funds.

REACHING A WIDE DIVERSITY OF ENTREPRENEURS

For BDC, diversity means having a team and an approach that reflect the society outside our door and that foster broad, inclusive outreach to clients. This enables us to meet entrepreneurs' needs, which vary from community to community, as well as to stimulate would-be entrepreneurs who have come to Canada from all parts of the world. We use a grassroots approach, collaborating with local business associations.

Women entrepreneurs lead businesses of all sizes in all sectors. They also enter the small business marketplace at twice the rate men do. Over the past two decades, their number has grown by over 200%. We have more than 7,000 women clients, almost twice as many as we did a decade ago. They represent about one quarter of our client roster.

At 22 Entrepreneurship Centers across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2008, the centres received $202 million worth of loan acceptances.

We have formal partnerships with more than 200 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. These partnerships enable us to reach entrepreneurs who live near these centres. Using this network, we supported more than 800 entrepreneurs in fiscal 2008.

Young entrepreneurs lead about 9% of Canadian small businesses. Many of them find it hard to secure financing because they have little or no managerial experience, and have no proven track record. Over the past five years, we have authorized over $780 million in financing to young entrepreneurs across the country.

PROMOTING ENTREPRENEURSHIP

To foster an entrepreneurial spirit in Canadian youth, BDC celebrates the creativity and business success of young entrepreneurs with awards such as the Young Entrepreneur Awards, a key event during BDC Small Business Week®. We also support competitions in universities and colleges that promote entrepreneurial and business-planning skills.

We are particularly proud of our support for Enterprize 2008. In this national competition, university students from across the country submitted business plans, competing in regional and national finals. BDC senior managers evaluated and judged the plans. The top three winners were from the University of New Brunswick, the University of Victoria and York University.

We also help promote economic development in Aboriginal communities through a grassroots approach called the Circle of Entrepreneurial Success. This strategy delivers management training, ongoing mentorship and loans of $5,000 to $20,000, with terms that vary depending on the cash flow expectations for the project.

To stimulate awareness of entrepreneurship among Aboriginal youth, we offer E-Spirit, an Internet-based Aboriginal youth business plan competition. To date, about 4,000 students have participated in it, and some competitors have since graduated and are running businesses based on those plans. Last year, we held the E-Spirit awards ceremony in Halifax.

REAL IMPACT BDC FINANCING

Carol Ann Barnaby
Vice President and Co-Owner

Percy Barnaby
President and Co-Owner

Abenaki Associates
Eel Ground, New Brunswick
BDC client since 2006

"We provide a full range of management and information technology services to First Nations clients across Canada. Our reputation and market knowledge are precious intangible assets, and BDC recognizes their value. We succeed because we understand our niche market and build long-term relationships with our clients. BDC financed the redevelopment of our key software, which helped us get a better product to our customers."

PUBLIC POLICY PERFORMANCE INDICATORS

We are developing four performance indicators – business creation, market leverage, business survival and business growth – to assess how well we are fulfilling our public policy mandate over the long term.

Business Creation

This indicator represents BDC's contribution to creating Canadian businesses, as compared to market benchmarks.

- Over the past six years, about 14% of BDC authorizations have gone to clients in the start-up phase. Market data show that approximately 5% of Canadian businesses are start-ups. This suggests that BDC is supporting more than twice as many start-ups as the market is.

Market Leverage

Each dollar BDC lends or invests leverages private sector sources of financing. Monitoring that activity reveals the total value of the SME projects BDC backs.

- Our fiscal 2008 operational data indicate that, including fund investments, BDC Venture Capital catalyzed almost $6.50 from other venture capitalists for every dollar BDC invested.

Business Survival

BDC works in partnership with entrepreneurs, even in difficult times. The survival rates of BDC start-up clients surpass industry benchmarks.

- Two-year survival threshold: BDC wrote off and liquidated only 8% of its loans to start-ups within the first two years. According to Statistics Canada research, 25% of firms cease operation before their second birthday.
- Five-year survival threshold: After five years, 67% of BDC-supported start-ups survive, compared to the Statistics Canada industry benchmark of 36%.

Business Growth

One can compare the growth of BDC clients to growth in the SME market at large.

- Based on internal and external surveys, BDC clients appear twice as likely as all SME owners to perceive their firms as being in the fast-growth stage (26% vs. 13%).

Our objective is to have a measurement system that gives us insight into our long-term impacts in the market. To this end, we collaborate with other small business experts. Should we determine that the indicators are less helpful than we expected, we will amend or dispose of them. Should other indicators prove to be more valid or useful, we will add them.

2.

KEY PERFORMANCE INDICATORS

WE MEASURE OUR PERFORMANCE AGAINST THE 2008–2012 CORPORATE PLAN.

CLIENTS

The first of BDC's key desired outcomes is supportive relationships with Canadian entrepreneurs. It is through these relationships that we offer them financing, investments and consulting to help them succeed.

Every year, we measure the degree to which our clients value their relationships with us. We hire an external firm to do a client satisfaction survey.

Client Satisfaction

F2006 Actual	F2007 Actual	F2008 Objective	F2008 Actual	F2009 Objective
92%	93%	90%	93%	91%

Performance in Fiscal 2008

In fiscal 2008, the overall client satisfaction rating remained high at 93%. This figure is the same as in fiscal 2007 and 3 percentage points above our fiscal 2008 objective.

Of our new clients, 95% said they were satisfied with our service. This figure is 1 percentage point higher than last year.

We also ask our clients if our financing will help them become more profitable. In our survey, 88% of new client respondents said yes.

Objective for Fiscal 2009

The objective for client satisfaction in fiscal 2009 is 91%, an increase of 1 percentage point from the fiscal 2008 objective but 2 points lower than the fiscal 2008 actual result.

EMPLOYEES

We seek employees whose skills, professional effectiveness and dedication to our mandate will ensure that our clients are well served.

To gauge the degree to which our employees are "engaged" in their work, we examine what they say about BDC, whether their job commitment makes them want to stay at BDC and how much discretionary effort they put into their work, in addition to that which their role requires. Every year we hire an external firm to do an employee engagement survey.

Employee Engagement

F2006 Actual	F2007 Actual	F2008 Objective	F2008 Actual	F2009 Objective
78%	80%	78%	76%	80%

Performance in Fiscal 2008

In fiscal 2008, our employee engagement rating decreased 4 percentage points to 76%. This figure is 2 points below our objective of 78%, but on par with the most recent engagement scores among best employers. We are working with our employees to understand the survey results and any issues they have identified.

Although our employee engagement rating decreased in fiscal 2008, we were recognized as one of the "Top 100 Employers in Canada" for the second year in a row. BDC also ranked first on a list of the "30 Best Companies in Canada for Pension and Benefit Plans," as determined by employee satisfaction. Finally, it was the only Canadian organization to be recognized in the international research study *Top Companies for Leaders*, done by an international panel of experts and sponsored by Hewitt and Associates.

Objective for Fiscal 2009

The objective for fiscal 2009 is to increase the engagement rate by 4 percentage points compared to fiscal 2008 results. To do so, we will continue to foster:

- a workplace that attracts and retains dedicated, business-minded, effective and diverse employees;
- a culture of responsibility and collaboration; and
- knowledgeable and trusted leadership through our award-winning Transitional Leadership Program, which gives targeted, practical training to managers, as well as employees we identify as potential leaders.

EFFICIENCY

BDC strives to be as efficient as possible. To measure our efficiency, we use a ratio of expenses and income. Specifically, we use our financing and subordinate financing operating and administrative expenses as a percentage of their net interest and other income. Note that this ratio includes realized gains and losses on subordinate financing investments. When we spend fewer dollars to generate each dollar of revenue, we are more efficient. The lower the ratio, the greater the efficiency.

Efficiency Ratio

F2006 Actual	F2007 Actual	F2008 Objective	F2008 Actual	F2009 Objective
48.9%	50.2%	51.0%	48.5%	50.1%

Performance in Fiscal 2008

The efficiency ratio in fiscal 2008 was 48.5%. This figure is 2.5 percentage points better than the corporate plan objective of 51.0%, mainly because operating and administrative expenses were $12.7 million lower than planned.

Improvements in lending processes and tighter controls over administrative expenses are the main factors explaining this $12.7 million positive variance.

Compared to last year, the efficiency ratio is 1.7 percentage points better, primarily because net interest and other income increased by 5.2% due to growth in the financing and subordinate financing portfolios, while operating and administrative expenses increased by only 1.5%.

Objective for Fiscal 2009

The efficiency ratio target for fiscal 2009 is 50.1%. This would be an improvement of 0.9 percentage points over the fiscal 2008 objective, but 1.6 points higher than the fiscal 2008 results, as we expect to complete the hiring needed to support our growth, as well as increase our investments in work process improvements.

In fiscal 2007, we launched the Value Project, an initiative to find ways to simplify our business processes. The goal is to eliminate activities that do not provide value to our clients, and to make better use of technology to reduce paper burden and delays. The Value Project will increase efficiency in the long term but hinder it in the short term. The recommendations it generates will also likely require major investments, the final costs of which we are determining. Consequently, this project may affect our 2009 objective.

FINANCIAL SUSTAINABILITY

OUTSTANDING BDC FINANCING PORTFOLIO

In fulfilling its public policy mandate, BDC must be profitable to grow and invest in its services. It must yield a sufficient rate of return, net of credit losses, to cover operating expenses and to generate sufficient earnings and capital to support future growth.

Outstanding Financing Portfolio

($ in billions)

F2006 Actual	F2007 Actual	F2008 Objective	F2008 Actual	F2009 Objective
$8.6	$9.1	$9.7	$10.0	$10.4

Performance in Fiscal 2008

The gross closing portfolio rose from $9.1 billion to $10.0 billion. This is an increase of almost $900 million, or 9.7%. At $10.0 billion, the gross financing portfolio was the driving force behind BDC's financial results. We believe fiscal 2008's growth was due in part to uncertainty in the marketplace, which reduced the credit supply for Canadian entrepreneurs.

Objective for Fiscal 2009

For fiscal 2009, the objective for the BDC Financing portfolio is $10.4 billion. This is 4.1% higher than the $10.0 billion achieved in fiscal 2008, but a slower growth rate than that recorded in fiscal 2008. The slower growth rate forecast is mainly attributable to a change in economic conditions, which should stabilize the level of authorizations and thereby reduce portfolio growth.

BDC CONSULTING REVENUES

BDC's consulting services differentiate us from our market peers. In general, business consulting services are expensive. We offer entrepreneurs a range of customized, quality consulting services at prices they can afford.

Consulting Revenue

($ in millions)

F2006 Actual	F2007 Actual	F2008 Objective	F2008 Actual	F2009 Objective
$21.6	$23.5	$26.0	$24.8	$26.0

Performance in Fiscal 2008

In fiscal 2008, consulting revenues rose 5.4% to $24.8 million, which is less than the corporate plan objective of $26.0 million but still a substantial growth compared to fiscal 2007 results. The growth in the number of mandates started during the year is even more impressive: an increase of 13% from last year's results. Due to trying economic conditions, the average size of our consulting mandates was smaller than expected.

Objective for Fiscal 2009

The fiscal 2009 revenue objective for BDC Consulting is $26.0 million, consistent with the fiscal 2008 objective.

RETURN ON COMMON EQUITY

BDC does not give grants or contributions and does not receive an annual appropriation from Parliament.To remain profitable to sustain growth, we aim to generate a return on common equity (ROE) that is at least equal to the government's average long-term cost of capital.

Return on Common Equity

F2006 Actual	F2007 Actual	F2008 Objective	F2008 Actual	F2009 Objective
9.2%	8.5%	7.1%	4.7%	6.3%

Performance in Fiscal 2008

BDC's total ROE in fiscal 2008 was 4.7%. This figure is lower than the corporate plan objective of 7.1%. The shortfall is due to the loss in our venture capital portfolio. However, our ROE allowed us to honour our obligation to meet or exceed the government's average long-term cost of capital of 4.0% for the year.

Objective for Fiscal 2009

The ROE objective is 6.3%. This figure is higher than the government's average long-term cost of capital for 2009 – estimated to be 3.2% – and assumes a net income of $118 million.

3.

ANALYSIS OF FINANCIAL RESULTS

THIS ANALYSIS COMPARES OUR FISCAL 2008 FINANCIAL PERFORMANCE TO FISCAL 2007 RESULTS AND 2008–2012 CORPORATE PLAN OBJECTIVES.

LINES OF BUSINESS

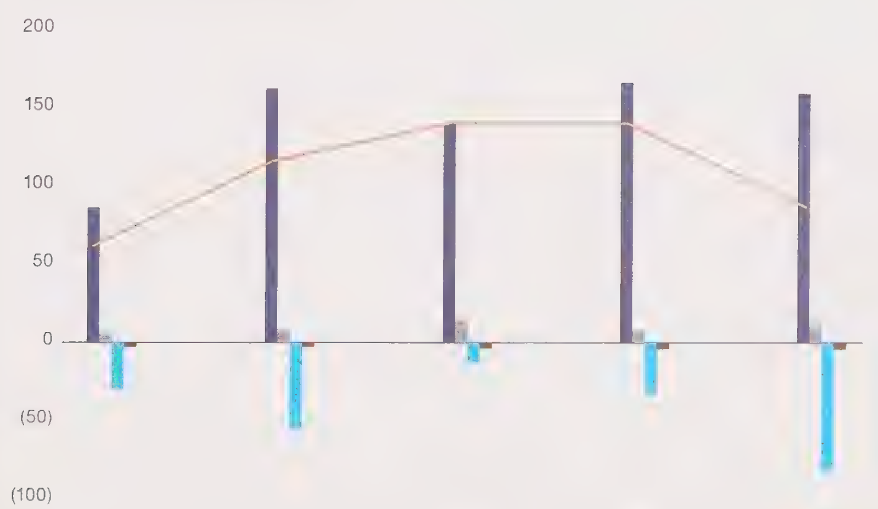
BDC reports on four business lines: BDC Financing, BDC Subordinate Financing, BDC Venture Capital and BDC Consulting.

CONSOLIDATED NET INCOME

Consolidated net income for fiscal 2008 was $84.6 million, compared to $138.0 million reported in fiscal 2007. The decrease from fiscal 2007 is mainly due to an increase in the venture capital loss of $49.2 million.

Income from BDC Financing was $160.9 million, $7.1 million lower than in fiscal 2007. The decrease is mainly the result of a $30.2 million increase in revenues offset by a $33.6 million increase in the provision for credit losses.

BDC NET INCOME
for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
BDC Financing	86.7	163.7	141.1	168.0	**160.9**
BDC Subordinate Financing	5.8	8.8	13.7	7.9	**11.0**
BDC Venture Capital	(30.3)	(56.1)	(12.8)	(33.6)	**(82.8)**
BDC Consulting	(3.1)	(2.9)	(3.8)	(4.3)	**(4.5)**
Total net income	59.1	113.5	138.2	138.0	**84.6**

BDC Subordinate Financing results were $3.1 million higher than the $7.9 million recorded in fiscal 2007. This difference is essentially due to a $7.0 million decrease in fair value depreciation, offset by a $3.7 million decrease in realized gains and losses on investments and other income.

BDC Venture Capital reported a $82.8 million loss for the year. This figure compares to a $33.6 million loss in fiscal 2007. The loss is due to the large depreciation in the fair value of investments.

The loss from BDC Consulting was $4.5 million in fiscal 2008, compared to a loss of $4.3 million in fiscal 2007.

Dividends

BDC pays dividends to its sole shareholder, the Government of Canada. We declared dividends of $21.5 million in fiscal 2008. Of this amount, $12.0 million was on common shares based on the fiscal 2007 results; the remainder was related to preferred shares. In fiscal 2008, we paid dividends of $21.5 million.

Exposure to Sub-Prime Defaults

In the latter part of 2007, problems in the U.S. sub-prime mortgage market triggered a general liquidity crisis. Many Canadian financial institutions had invested in financial instruments backed by sub-prime mortgages and other similar assets, and have taken write-downs on them. BDC was unaffected by the crisis; we have no exposure to non-bank asset-backed commercial paper or sub-prime financial instruments.

Performance Against Objective

Consolidated net income of $84.6 million in fiscal 2008 was $38.8 million lower than targeted in the corporate plan. This difference is due to the higher than expected venture capital loss of $82.8 million, partly offset by better than planned performance of $39.0 million from BDC Financing and $5.5 million from BDC Subordinate Financing.

DIVIDENDS

for the years ended March 31 ($ in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008***
Preferred declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.3	9.0	8.7	9.5	**9.5**
Common declared	–	–	–	–	–	–	–	0.4	3.3	7.8	12.1	**12.0**
Total dividends declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.7	12.3	16.5	21.6	**21.5**
Total dividends paid	–	3.4	6.0	6.0	8.9	13.8	17.5	11.8	13.6	16.8	20.8	**21.5**

* In addition, based on BDC's fiscal 2008 performance, common dividends of $7.0 million were declared after March 31, 2008, and will be paid and recorded in fiscal 2009.

Outlook for 2009

We project a consolidated net income of $118 million in fiscal 2009. Note that an economic slowdown or continued difficulty in venture capital markets could hamper our ability to reach this objective.

We declared, after year-end, a common share dividend of $7.0 million based on our fiscal 2008 financial performance. We will record and pay this dividend in fiscal 2009.

We also project a $10 million dividend on preferred shares, which we will declare in fiscal 2009.

BDC FINANCING

BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their businesses, develop and expand their markets, invest in intangible assets such as information technology, buy equipment or transfer their companies to a new generation of owners.

CUMULATIVE DIVIDENDS PAID

as at March 31 ($ in millions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Preferred dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.1	77.3	86.4	95.1	**104.5**
Common dividends paid	–	–	–	–	–	–	0.4	3.8	11.5	23.6	**35.7**
Total dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.5	81.1	97.9	118.7	**140.2**

BDC will be making an additional total payment of $16.5 million in June 2008 ($9.5 million in preferred dividends declared in fiscal 2008 and, based on fiscal 2008 performance, common dividends of $7.0 million declared after March 31, 2008).

Financing Portfolio

BDC Financing's closing portfolio, before allowance for credit losses, rose from $9.1 billion to $10.0 billion in fiscal 2008. This is an increase of $886 million, or 9.7% when compared to fiscal 2007. We attribute this increase to the unanticipated, tightened credit conditions and reduced liquidity that characterized the marketplace in 2007. The average portfolio increased by 7.3%. The largest contributing factor to this growth was a 16% growth in disbursements ($2.8 billion). The payment and prepayment rate was 20.5% of opening outstanding portfolio, 1.2 percentage points lower than the rate in fiscal 2007 because our clients availed themselves of repayment grace periods and extended terms.

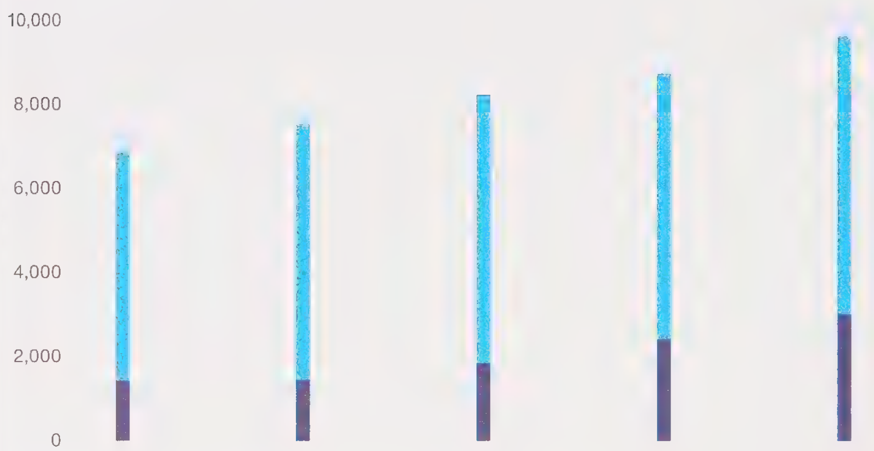
We offer clients floating and fixed interest rates. We borrow the funds on the Canadian and global money markets, which determine our cost of funds. This cost, in turn, becomes the foundation of the rate we charge our clients, along with factors to cover operating expenses and the risk of each individual loan. As seen in the graph at upper right, a higher proportion of the performing portfolio, 31.6% compared to 27.9% in fiscal 2007, is composed of fixed rate loans.

Net Interest and Other Income

Net interest income of $473.8 million reflected interest income less interest expense on borrowings. It also included $47.9 million in interest earned on short-term investments and securities. Other income of $33.4 million mainly comprised fees charged to borrowers. Net interest and other income totalled $507.2 million, which was $30.2 million or 6.3% higher than in fiscal 2007.

PERFORMING PORTFOLIO

as at March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
Fixed rate portfolio	1,478	1,500	1,902	2,464	**3,069**
Floating rate portfolio	5,508	6,117	6,426	6,378	**6,652**
Total performing portfolio	6,986	7,617	8,328	8,842	**9,721**

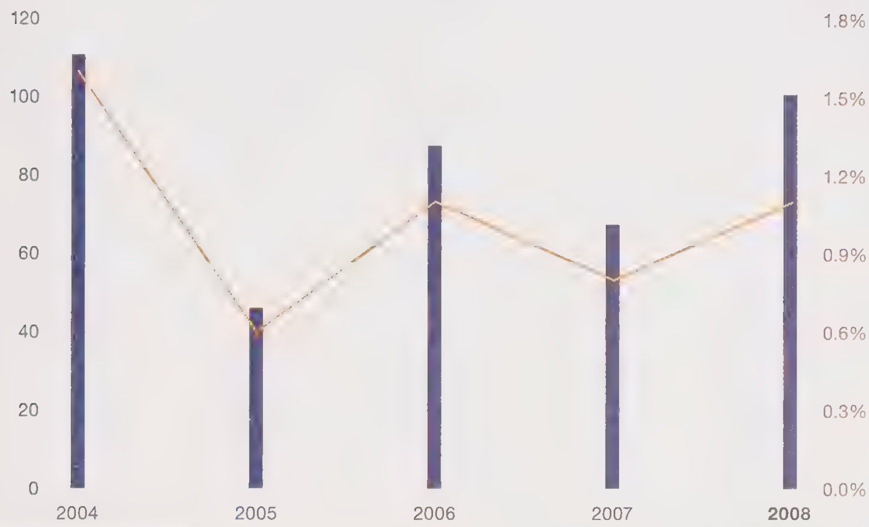
BDC FINANCING NET INTEREST AND OTHER INCOME

for the years ended March 31 ($ in millions)

	2004	2005	2006	2007	**2008**
Net interest and other income	389.0	413.5	449.6	477.0	**507.2**
As a % of average loan portfolio	5.58%	5.45%	5.43%	5.36%	**5.31%**

PROVISION FOR CREDIT LOSSES

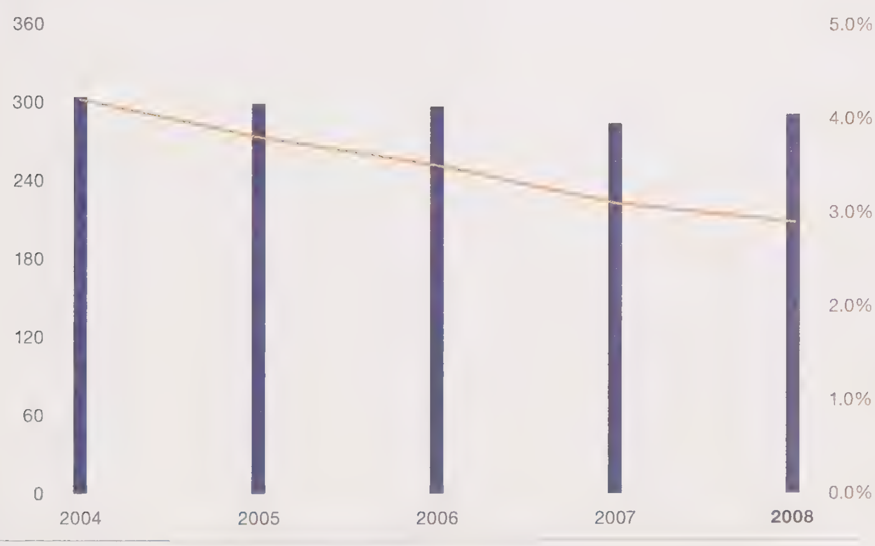
for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	2008
Provision for credit losses	111.4	46.4	88.1	67.9	**101.5**
As a % of average loan portfolio	1.6%	0.6%	1.1%	0.8%	**1.1%**

IMPAIRED PORTFOLIO

as at March 31 ($ in millions)



	2004	2005	2006	2007	2008
Impaired portfolio	306	301	299	286	**293**
Impaired portfolio as a % of loan portfolio	4.2%	3.8%	3.5%	3.1%	**2.9%**

This $30.2 million increase was the net result of an increase of $35.0 million due to portfolio growth and a decrease of $4.8 million due to a lower margin achieved in fiscal 2008. Net interest and other income margin expressed as a percentage of the average portfolio was 5.31%, compared to 5.36% in fiscal 2007. Three factors explain this lower margin: (i) the implementation of the new accounting standard for financial instruments; (ii) higher other income due to higher client fees; and (iii) a lower margin achieved on fixed and floating rate portfolios funded with debt.

Provision for Credit Losses

BDC Financing recorded a specific provision for credit losses of $80.1 million and a general provision of $21.4 million. This represents 1.1% of the average loan portfolio, compared to 0.8% in fiscal 2007. In fiscal 2007, the specific provision was $67.9 million and no general provision was recorded. The provision increase in fiscal 2008 reflects higher impairment in our specialized term loans, which either have lower security or are unsecured. Total provision for credit losses is still at a cyclically low level.

When loans default, we classify them as impaired and record an amount equal to the net exposure as a specific provision. Also, this amount is added to the specific allowance. Loan write-offs reduce the specific allowance, once we determine that we have made all possible recoveries from the distressed debtor. Write-offs and other adjustments totalled $76.0 million, versus $60.1 million in fiscal 2007. Impaired loans as a percentage of the portfolio decreased by 0.2 percentage points from a year ago to 2.9% at March 31, 2008. However, the net exposure per impaired loan increased over the fiscal year because there were more unsecured loans in the portfolio.

SPECIFIC PROVISION FOR CREDIT LOSSES

for the years ended March 31 ($ in millions)

	2004	2005	2006	2007	2008
Specific provision for credit losses	74.4	46.4	61.4	67.9	**80.1**
Average loan portfolio	6,976	7,595	8,275	8,902	**9,552**

ALLOWANCE FOR CREDIT LOSSES

as at March 31 (percentage)

	2004	2005	2006	2007	2008
Total allowance as a % of loan portfolio	6.5	6.0	5.8	5.5	**5.3**
General allowance as a % of performing portfolio	5.3	4.9	4.8	4.5	**4.3**

BDC maintains the cumulative allowance for credit losses at a level that reflects its long-term loss experience. At March 31, 2008, the allowance totalled $532.7 million, compared to $505.5 million a year ago. The total allowance represents 5.3% of the loan portfolio outstanding at March 31, 2008, compared to 5.5% at March 31, 2007. This decline was due mainly to improved credit quality in the performing loan portfolio.

Operating and Administrative Expenses

Operating and administrative expenses were $244.8 million in fiscal 2008, compared to $241.1 million in fiscal 2007. That was a 1.5% increase. Salaries and benefits rose by $7.1 million, or 4.7%, mostly due to a higher number of employees to support business growth, as well as to an increase in the average compensation of employees. In contrast, other operating and administrative expenses decreased by $4.0 million, due to tighter control of expenses.

Income from BDC Financing

BDC must generate sufficient returns, net of dividends to the shareholder, to increase its capital base. This capital base supports expanded future lending activities and allows us to maintain the requisite asset-to-capital ratio prescribed by Treasury Board of Canada, Secretariat.

Income from BDC Financing was $160.9 million in fiscal 2008, $7.1 million lower than the $168.0 million recorded in fiscal 2007. This decrease was mainly due to a higher provision for credit losses, partially offset by higher revenues from portfolio growth.

Performance Against Objectives

Financing income of $160.9 million in fiscal 2008 was above the corporate plan objective of $122 million.

The $10.0 billion portfolio was higher than the corporate plan objective of $9.7 billion. The actual provision expense of $101.5 million was much lower than the corporate plan objective of $124 million, due to lower specific and general provisions as a result of better than anticipated portfolio credit quality.

While business growth exceeded our corporate plan objective, total operating and administrative expenses were $12 million lower than targeted in the corporate plan. The difference was mainly due to lower staffing costs and other expenses, as a result of a lower level of employees than expected, due partly to process improvement and management's focus on cost control.

Outlook for 2009

We project less favourable economic conditions but steady demand for BDC Financing services. As a result, our gross portfolio should rise by 4.1% to $10.4 billion. This growth should push net interest and other income to $531 million, an increase of 4.7% from fiscal 2008.

We expect the credit environment to tighten slightly in fiscal 2009 because of the slowdown in the American economy, as well as the potential for a similar slowdown in Canada. Accordingly, we project the 2009 provision for credit losses will be $123 million, or 1.2% of the average portfolio, compared to 1.1% in fiscal 2008.

We expect operating and administrative expenses to rise by 9.5% to reach $268 million, due to a higher average number of employees to support our growth, plus investments in work process improvements to enhance our agility and efficiency. We therefore expect income from BDC Financing to be $140 million.

BDC SUBORDINATE FINANCING

Subordinate financing investments are hybrid instruments that combine elements of debt and equity financing.
We offer them to entrepreneurs whose more mature businesses need working capital for fast growth but who do not have the tangible security that conventional lenders require and do not wish to dilute their ownership of their firm.

In fiscal 2004, BDC and the Caisse de dépôt et placement du Québec (the Caisse) agreed to invest $150 million over three years in a joint partnership fund called AlterInvest Fund LP. This fund has been fully committed. In November 2006, BDC and the Caisse created a second fund, AlterInvest II Fund LP, to invest an additional $330 million. Since 2003, our subordinate financing activity has taken place via these funds, for which we act as the general partner. In fiscal 2006, we started reporting subordinate financing investments at fair value.

Subordinate Financing Portfolio

Consolidated BDC Subordinate Financing net portfolio assets grew by 5.3% in fiscal 2008, from $148.3 million to $156.2 million. Net portfolio assets under management rose from $255.8 million to $282.7 million.

Income from Subordinate Financing

BDC Subordinate Financing operations reported an income of $11.0 million for the year, $3.1 million higher than in fiscal 2007.

Net interest income from BDC Subordinate Financing of $13.7 million was in line with the result in fiscal 2007. Realized gains and losses on investments and other income totalled $10.0 million in fiscal 2008. This is a decrease of $3.7 million from fiscal 2007. Change in unrealized depreciation of investments of $0.3 million was $7.0 million better than fiscal 2007's level of $7.3 million.

Performance Against Objective

Income from BDC Subordinate Financing of $11.0 million in 2008 was much higher than the corporate plan objective of $5 million.

Outlook for 2009

Subordinate financing will remain attractive to entrepreneurs who want to finance growth, invest in intangible assets or transfer the ownership of their companies. Our subordinate financing is expected to grow by 5.6% to $165 million in 2009, an investment we expect to generate $6.6 million in income.

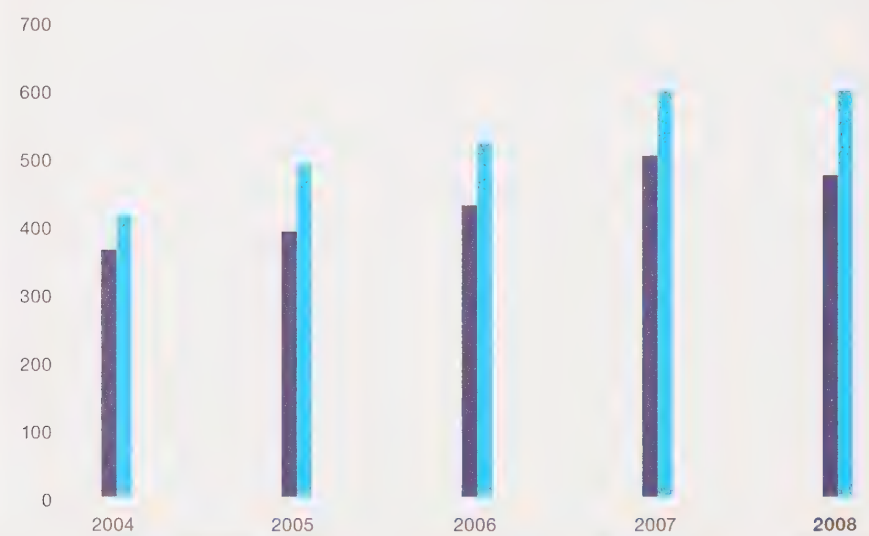
BDC VENTURE CAPITAL

Venture capital investments are equity instruments that support entrepreneurs as they turn the fruits of research and development – innovative ideas and technologies – into companies.

They cover every stage of the venture company's multi-stage development cycle, from seed through expansion. BDC's venture capital client roster mainly comprises companies at the seed, start-up and early stages of development.

VALUATION OF BDC VENTURE CAPITAL: TOTAL INVESTMENTS

as at March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
Fair value	366.0	393.2	431.4	505.1	**476.0**
Cost	416.6	491.5	525.6	601.2	**601.4**

We invest in companies directly or via investment funds. We hold our venture capital assets through BDC Capital Inc. and have been measuring them at fair value since 2006.

Venture Capital Portfolio

The fair value of the portfolio decreased from $505.1 million in fiscal 2007 to $476.0 million at March 31, 2008. Of the total fair value of $476.0 million, $431.2 million relates to direct investments in companies and $44.8 million relates to investments in 17 funds. The decrease was due to dispositions, write-offs and fair value movements of $158.8 million, net of disbursements of $129.7 million.

Loss from Venture Capital

BDC Venture Capital's success depends, to a large degree, on profitable divestitures of individual investments. These divestitures are affected by market conditions. For the past several years, venture capital market conditions have been difficult. These difficult conditions, combined with the highly risky nature of the investment projects, have resulted in a pronounced volatility of earnings to the shareholder.

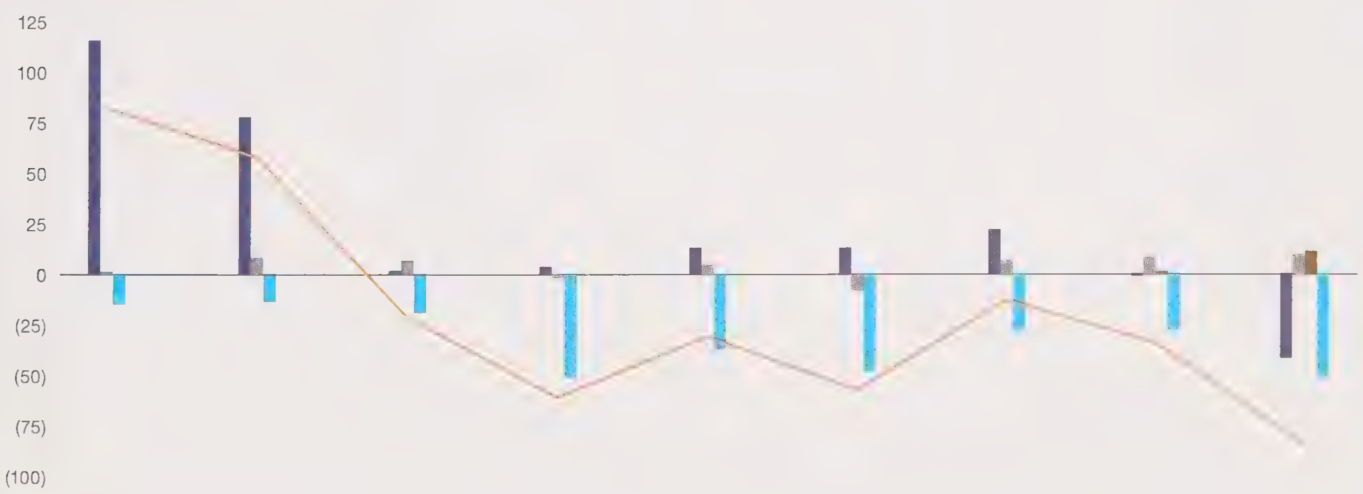
Since 2004, the portfolio at cost has increased by almost 45%. BDC Venture Capital has been growing its portfolio in accordance with the Government of Canada strategy that focuses on seed, start-up and early-stage companies.

The depressed state of Canada's venture capital market has increased the time horizon required for exits from seed and early-stage companies. This has reduced the number of exit opportunities, as well as the valuations for new investors. BDC Venture Capital has suffered losses over the last seven years, a period of financial loss that parallels the Canadian venture capital industry's post-2001 difficulties.

In fiscal 2008, BDC Venture Capital recorded a loss of $82.8 million, compared to fiscal 2007's $33.6 million loss. Most of this loss is attributable to the change in the fair value of investments.

BDC VENTURE CAPITAL OPERATIONS

for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Realized net gains (losses) on investments	112.7	75.8	1.7	3.8	12.7	12.7	21.6	(1.2)	**(40.9)**
Other*	1.6	8.4	7.0	(1.7)	4.9	(8.0)	6.9	8.3	**9.7**
Net gains on foreign exchange contracts	–	–	–	–	–	–	–	1.4	**11.2**
Write-down of investments / unrealized depreciation (2006–2008)	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	(47.4)	(27.7)	(27.4)	**(50.0)**
Income (loss) before operating and administrative expenses	99.6	70.9	(10.2)	(47.9)	(19.2)	(42.7)	0.8	(18.9)	**(70.0)**
BDC Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	(56.1)	(12.8)	(33.6)	**(82.8)**

* Includes interest, dividends and management fees. Also includes unrealized gains / losses on temporary investments up to 2005.

Because the market offered few exit opportunities, divestitures were low in number again this year. Also, new investors in many of our portfolio companies were able to command lower prices of entry; when this happens, the result is a reduction in the fair value of the investment. Net realized losses on investments amounting to $40.9 million included $20.6 million in gains and $61.5 million in losses, consisting of sales and write-offs. This figure compares to $1.2 million in net realized losses in fiscal 2007. These net losses had no impact on net income because the fair value depreciation had already been recorded. Interest, dividends and other income in fiscal 2008 totalled $9.7 million, $1.4 million higher than fiscal 2007's result.

The change in unrealized depreciation of $50.0 million reflected:

- a net depreciation of $74.7 million in the portfolio during fiscal 2008;
- reversal of net fair value depreciation on divested investments that totalled $40.2 million, which largely offset net realized losses incurred during the year; and
- $15.5 million in depreciation due to foreign exchange fluctuations on U.S. dollar investments.

BDC monitors fluctuations in its U.S. dollar investments and uses foreign exchange contracts to partially hedge foreign exchange exposure. As such, an $11.2 million net gain on foreign exchange contracts partly offset the depreciation due to foreign currency.

The net depreciation of $74.7 million comprised a $4.4 million depreciation in investments in funds, $16.7 million in public companies and $53.6 million in private companies. As these figures show, there were negative results for all types of investments, testimony to the unfavourable venture capital market conditions.

Performance Against Objective

The venture capital loss, $82.8 million, was significantly higher than the corporate plan objective of break-even. This variance is due to two factors. Realized income was lower because of limited exit opportunities and the reductions in fair values were much greater than expected. The fair value of such investments is volatile and very difficult to measure and predict.

Outlook for 2009

Venture capital investing requires patient, long-term commitment and superior, specialized management skills. This is particularly true for BDC because it holds investments in many seed, start-up and early-stage companies. We remain dedicated to our shareholder's mandate to support commercialization in Canada.

In fiscal 2009, we expect activity to continue at a good pace; growing venture companies need additional rounds of investment for expansion or commercialization. We will bolster our scrutiny of the market competitiveness of our investee firms, dedicate greater efforts toward those that have a higher potential to be winners and work to attract additional investors. As per the corporate plan, we expect the fair value of investments to be $585 million in fiscal 2009 and project a $35 million fair value depreciation and a net loss of $25 million in fiscal 2009. These projected results could be affected if adverse market conditions continue.

In its 2008 budget, the federal government announced a $75 million capital contribution for BDC to help create a new privately run venture capital fund reaching $500 million to support late-stage venture capital investments.

BDC CONSULTING

BDC Consulting offers entrepreneurs tailored, affordable, quality consulting services to help them become more competitive. These services are an integral part of the value we bring to our client relationships. Our primary objective in offering consulting services is strengthened Canadian entrepreneurial competitiveness.

BDC started 2,770 consulting mandates in fiscal 2008, an increase of 13% over fiscal 2007. In fiscal 2008, the average mandate size of $9,400 was below the fiscal 2007 average of $10,000. We attribute this decline to fiscal 2007's economic uncertainty; our clients' investment decisions reflected heightened prudence.

Loss from Consulting

The two primary financial indicators for BDC Consulting, mandates and revenues, were ahead of fiscal 2007 results. Consulting revenue is generated as mandates are performed. It reached $24.8 million in fiscal 2008, 5.4% ahead of fiscal 2007.

The BDC Consulting loss of $4.5 million was $0.2 million higher than fiscal 2007's level, as growth in revenue did not fully offset the increase in operating and administrative expenses.

Performance Against Objectives

Revenues of $24.8 million were $1.2 million below the corporate plan target, due to the lower average mandate size. At $4.5 million, the loss was slightly higher than the corporate plan objective of $4.0 million.

Outlook for 2009

Our revenue target is $26 million, for a net expected loss of $4 million. This figure reflects our strategy of maintaining our prices at levels that small businesses can afford.

BDC CONSULTING REVENUE

for the years ended March 31 ($ in millions)

BDC CONSULTING SERVICES

- Strategic planning
- Market development
- Operational efficiency
- Human resources
- Business transition
- Innovation

BALANCE SHEET

In fiscal 2008, total assets increased by $619.5 million, or 5.7%, from fiscal 2007, mainly in the loans portfolio.

BDC holds cash, cash equivalents and securities in accordance with its liquidity and investment management policy. Our liquidities, which ensure funds are available to meet client needs, totalled $816.6 million in fiscal 2008.

Loans, net of allowance for credit losses, were the largest asset on the balance sheet. This portfolio increased by $858.8 million, or 10.0%, from fiscal 2007, as a result of better reach after new branches opened last year and high demand for BDC Financing services because of tightened credit conditions.

Subordinate financing loans and investments increased by $7.9 million, or 5.3%. The fair value of the venture capital investments portfolio decreased by $29.1 million, or 5.8%, reflecting difficult market conditions.

Derivative assets of $206.9 million and derivative liabilities of $321.8 million reflected the fair value of derivative financial instruments as at March 31, 2008. Variances from fiscal 2007 figures are mainly due to the implementation of new accounting standards for financial instruments. These new standards now require that we measure derivative instruments at fair value. Other assets of $258.2 million included an accrued benefit pension asset of $115.8 million, while other liabilities of $149.1 million included an accrued benefit pension liability of $107.9 million.

BORROWINGS

as at March 31 ($ in millions)

	2004	2005	2006	2007	**2008**
Liquid assets	865	903	930	929	**817**
Portfolios*	7,323	7,966	8,705	9,276	**10,114**
Borrowings	7,181	7,288	7,876	8,228	**8,986**

* Includes net portfolios and investments.

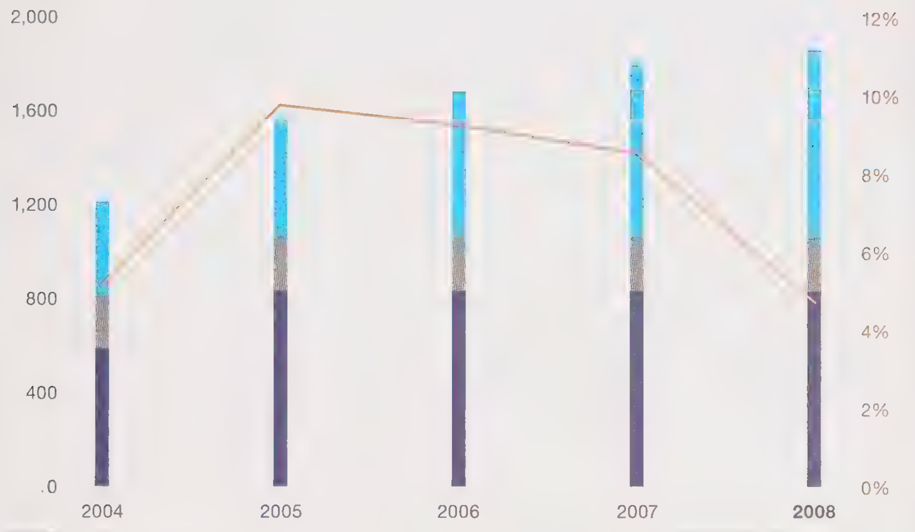
At March 31, 2008, we funded portfolios and liquidities of $10.9 billion with borrowings of $9.0 billion and total equity of $1.9 billion. Borrowings in short-term and long-term notes increased by 9.2% in relation to the overall growth in portfolio assets. Equity consisted of $1.1 billion in paid-up capital, $804 million in retained earnings and $2.8 million in accumulated other comprehensive loss. As a result of the adoption of new Canadian Institute of Chartered Accountants (CICA) accounting requirements for financial instruments, BDC included a new section in shareholder's equity, called Accumulated other comprehensive income (loss) (AOCI). The purpose of this new section is explained in Note 2 to the Consolidated Financial Statements.

Retained earnings grew by $62.4 million in fiscal 2008 to $804.0 million, with a consolidated net income of $84.6 million, declared dividends of $21.5 million and a transition adjustment attributable to the adoption of new CICA accounting standards for financial instruments of $0.6 million.

Return on common equity was 4.7%, below the 8.5% reported in fiscal 2007 and the 7.1% planned in fiscal 2008.

TOTAL SHAREHOLDER'S EQUITY

as at March 31 ($ in millions)



	2004	2005	2006	2007	2008
Common shares*	586.2	836.2	836.2	836.2	**836.2**
Preferred shares	230.0	230.0	230.0	230.0	**230.0**
Retained earnings	402.3	503.4	625.1	741.5	**804.0**
Accumulated other comprehensive income (loss)	–	–	–	–	**(2.8)**
Total shareholder's equity	1,218.5	1,569.6	1,691.3	1,807.7	**1,867.4**
Return on common equity	5.1%	9.7%	9.2%	8.5%	**4.7%**

* Includes $27.8 million of contributed surplus.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 20 to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

The *Pension Benefits Standards Act* of 1985 and related regulations determine registered pension funding requirements, while the *Income Tax Act* and its regulations define funding limits. BDC temporarily suspended employer contributions to the registered pension plan between 1994 and 2005, and employee contributions between 1997 and 2005, due to funding surpluses. In July 2005, BDC gradually began phasing in employee contributions, and full contributions were re-instated in July 2007.

As of December 2007, the registered pension plan enjoyed a funding surplus on a going-concern basis and a funding deficit on a hypothetical solvency basis. BDC's employer contributions totalled $17.3 million in fiscal 2008, compared to $27.5 million in fiscal 2007. In the past, the supplemental plans were mostly unfunded, but BDC chose to fund the plans in fiscal 2006. BDC contributed $10.1 million in fiscal 2008, compared to $9.3 million in fiscal 2007. Other employee future benefits remain unfunded.

CAPITAL MANAGEMENT

Statutory Limitations

BDC's debt-to-equity ratio cannot exceed 12:1. At March 31, 2008, it was at 4.8:1, compared to 4.6:1 at March 31, 2007. Moreover, BDC's paid-in capital must not exceed $1.5 billion. Paid-in capital amounted to $1.1 billion in fiscal 2008, unchanged from fiscal 2007, since we received no additional capital.

Capital Adequacy

Treasury Board of Canada, Secretariat provides BDC with guideline capital adequacy ratios. We must maintain capital and loss provisions sufficient to ensure BDC can withstand unfavourable economic circumstances without requiring additional government funding.

Adequate capital ratios reflect the relative risk of the various asset types we hold. The required capital is 10% of net value for term loans, 25% for quasi-equity loans and 100% for venture capital investments. The shareholder reconfirmed these ratios in fiscal 2003. BDC operates in accordance with its regulatory capital ratios.

While BDC is not required to meet the requirements of the Basel II Capital Accord, we use an economic capital model and a supporting risk rating system that comply with Basel requirements. The capital model looks beyond market, credit and operational risks to business risks and maturity risks. Our model now assesses operational risks more accurately, based on internally observed measures rather than external industry benchmarks.

DEBT-TO-EQUITY RATIO

as at March 31

	2004	2005	2006	2007	**2008**
Actual	5.9	4.6	4.7	4.6	**4.8**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

CAPITAL ADEQUACY

as at March 31 ($ in millions)

	2004	2005	2006	2007	**2008***
Minimum capital required	1,086	1,189	1,316	1,460	**1,545**
Actual	1,219	1,570	1,691	1,808	**1,870**

* Excludes accumulated other comprehensive income.

4.

RISK MANAGEMENT

INTRODUCTION

Risk is an inherent feature of the financial sector. We focus on entrepreneurial projects; this usually entails high-risk loans or investments.

As required by our sole shareholder, the Government of Canada, we are commercially viable. Commercial viability enables us to fulfill our mandate, grow and invest in the services we offer to entrepreneurs. Specifically, we are to generate a long-term return on common equity that is at least equal to the government's average long-term cost of capital.

For parliamentarians and public servants, it is important to know that BDC uses its strong capital base and sophisticated risk management systems to manage various kinds of risk, including the largest risk – the credit risk in the loan portfolio. We use a risk management framework based on the principles of autonomy and commercial viability.

OUR MANDATE POINTS US TOWARD HIGH-RISK PROJECTS. WE OFFER OUR CLIENTS AS MUCH SUPPORT AS OUR CAPITAL REQUIREMENTS PERMIT.

DEFINITIONS

Credit risk is the risk of loss that arises from the possibility of default by a borrower or investee (either directly or indirectly), the issuer of an asset, or a counterparty with whom BDC does business.

Environmental risk is the risk that BDC will lose money due to an environmental hazard, including environmental hazards that we did not foresee or properly manage.

Interest rate risk is the risk that market interest rate fluctuations will decrease the value of financial instruments.

Issuer/counterparty risk is the risk that a counterparty's credit rating will be downgraded or that the counterparty will default, resulting in a loss in the value of outstanding financial instruments, if the counterparty cannot meet its contractual obligations.

Legal and regulatory risk arises when BDC transacts with a counterparty that lacks the legal or regulatory authority to engage in the transaction, when changes to laws or regulations adversely affect the value of a set of transactions, or when derivatives documentation is missing or inappropriate.

Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due.

Loan credit risk is the risk that BDC will lose money when a client defaults on a loan.

Loan portfolio concentration risk is the risk that BDC will lose money when several borrowers in the same industry or area default at the same time.

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices.

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or external events beyond our control such as natural disasters. It includes all risks – such as business, legal and compliance risks – that are not credit, market or reputational risks.

Reputational risk is the risk of engaging in any activities or practices, knowingly or unknowingly, that will harm the public's perception of BDC, its image or its brand, or reflect poorly on the shareholder.

Treasury risks are risks that arise when BDC issues debt in the market to fund its lending operations. They include liquidity risk, market risk, counterparty credit risk, operational risk, and legal and regulatory risk.

GOVERNANCE

In January 2008, BDC's Board of Directors reviewed and approved the enterprise risk management (ERM) policy. This policy codifies the integrated, enterprise-wide process by which we identify, assess, measure, manage and report risk concerns, events, exposures and potential opportunities. ERM is a framework policy that ensures we are methodical and consistent in our planning, decision-making and operations. It precludes us from managing risk in an uncoordinated or piecemeal way.

The **Board of Directors** approves broad risk policy concepts, risk appetite and strategies; ensures BDC's risk management and control framework is effective; reviews portfolio and major risks and management plans; and reviews capital adequacy.

The **Credit/Investment and Risk Committee** of the Board of Directors reviews for approval large financing and venture capital investments.

BDC has four management committees that administer various aspects of the ERM policy.

The **ERM Committee** identifies, assesses and quantifies ongoing risks and opportunities in our day-to-day operations. ERM Committee members come from a cross-section of departments and disciplines. Their mandate is to develop and oversee the implementation of action plans that span business units. They also meet at least twice a year to consider the non-financial risks facing BDC and to propose plans to address them.

The **Asset and Liability Committee** oversees treasury funding and compliance with the treasury risk policy, including the matching of assets and liabilities.

The **Portfolio Outlook Committee** reviews loan portfolio concentrations, risk migration, and overall risk assessment and quality, and recommends actions. This committee comprises representatives from different parts of BDC, including field operations, market development, portfolio risk management and credit risk management.

The **Credit/Risk Committee** is composed of senior employees appointed by the president. Its role is to scrutinize high-risk credit decisions.

Enterprise Risk Management Structure

BOARD OF DIRECTORS

Enterprise Risk Management (ERM) Policy

Credit/Investment and Risk Committee

SENIOR MANAGEMENT TEAM

Enterprise Risk Management (ERM) Committee

Asset and Liability Committee

Portfolio Outlook Committee

Credit/Risk Committee

INTERNAL AUDIT

MANAGING RISKS: PROCESSES

The first step is to detect and identify risk. BDC does constant, radar sweep-like scans of its risks. We review our activities and identify significant corporate risks informally through senior management discussions at weekly meetings. Formal and informal risk discussions take place at local levels around all business transactions and developments. These discussions also arise when we apply due diligence processes.

BDC's business unit managers do the first scans. Every year, they identify their top risks. For each risk, they write an action plan to mitigate, avoid or accept it, with an estimate of the money or resources they would need to implement the plan.

The ERM team compiles, quantifies and assesses the business units' risks in a report for the ERM Committee. The report summarizes the risks and identifies the ones that might affect BDC as a whole. The ERM team then works with each business unit to prioritize and implement the action plans.

Every year, the ERM Committee and the Board assess BDC's top risks. We analyze the likelihood of each risk happening and its potential impact on BDC's business objectives. We also assess the measures we are using to mitigate it. Employees from a cross-section of departments identify, assess and rank the risks. Senior managers develop action plans for the top risks and discuss them with the Board of Directors.

Every three months, senior managers send the Board an updated ERM report that outlines the performance of the financing, subordinate financing and venture capital portfolios; their adherence to BDC's risk tolerance limits; and the status of the risk indicators we are monitoring.

Every year, unit managers evaluate the status of risk mitigation actions, and outline and confirm actions BDC will take. In addition, each business unit does a risk scan and assessment as part of its planning process.

At least every third year, BDC assesses and prioritizes risks at both the corporate and the significant operational or functional unit levels. These units develop and implement action plans and best practices within BDC's available capacities, on a timetable that respects competing operational priorities. They assess the risks of all significant projects, new products and new policy developments as they arise. Units sustain risk assessments by regularly informing senior management and the Board of Directors of business risks.

Every day, BDC manages the quality of its individual loans by cultivating solid working relationships with its entrepreneur clients, monitoring their financial conditions, and monitoring employees' adherence to policies and controls. Every three months, our senior managers meet formally to review trends, concentrations, risk indicators and loan quality assessments, and to adjust marketplace strategies so that they reflect the business risk levels BDC considers acceptable. After these quarterly meetings, senior managers discuss their findings and courses of action with the Credit/Investment and Risk Committee of the Board of Directors.

This constant flow of precise information has two benefits: greater responsiveness at the local business unit level and sharpened managerial oversight.

Managing Credit Risk in the Loan Portfolio

The most important risk for BDC to manage is the credit risk derived from its commercial term lending – the largest part of BDC's portfolio. This lending is widely diversified and pan-Canadian. We hold the loans to maturity, as we do not use market instruments – such as credit derivatives or portfolio securitization practices – to offset this risk.

Our managers use a sophisticated monitoring system that constantly scans both new loans and the portfolio of existing loans. Every week, this system provides in-depth analyses and warnings of trends that might require quick corrective action. It also gives information about the causes of problems: details specific to the industry sector, geographic location, branch, loan size or loan type.

This system puts information into the hands of the unit managers responsible for monitoring risk, while keeping senior managers abreast of all developments.

It is at the branch level that we choose to take or avoid risk on individual transactions. We use all the tools, knowledge and research at our disposal to evaluate all potentially important risks. We ensure that we are appropriately compensated for each level of risk. The Credit Risk Committee, which comprises senior employees appointed by the president, scrutinizes high-risk credit decisions. Members bring their advanced knowledge, skills and experience to these decisions. The Credit Risk Committee's principal responsibility is to adjudicate credit within prescribed limits.

For larger transactions, the Credit Risk Committee makes recommendations to the Credit/Investment and Risk Committee of the Board of Directors for approval. It also reviews any transactions involving parties related to or referred

by members of Parliament, senators or fellow board members.

Two teams, the internal audit team and the portfolio risk management team, review loan quality monthly. Each review examines a sample of loans to ensure that the employees who approved them respected BDC's policies, performed due diligence and did proper risk assessments. We use the results of these reviews to train employees, to continually improve their performance.

The internal audit team also examines branch operations to determine loan portfolio credit risk and to ensure branches are complying with BDC's policies and procedures. The team alerts management to any negative trends in operational or procedural risks that it identifies, and managers ensure that the employees responsible take corrective action. We use all of these findings to identify opportunities to improve processes, or to provide more training to reduce our operational risk exposure.

Loan credit risk is the risk that BDC will lose money when a client defaults on a loan. Recall that our mandate requires us to lend to a high-risk segment of the Canadian commercial loan sector. We base our decisions on our experience with similar clients, and we use policies, procedures and risk assessment tools to help us make these decisions. A risk-rating framework helps us properly price our loans according to the risk taken and our loss experience with similar transactions. The risk rating helps us understand the degree of risk in our underwriting and management of all loans in our portfolio.

We report formally to senior managers and the Board every quarter, and informally to managers as required. We decentralize our underwriting decisions and subject them to independent review and audit. All of our managers are trained to assess overall credit risk.

Loan portfolio concentration risk is the risk that BDC will lose money when several borrowers in the same industry or area default at the same time. We diversify our loan portfolio by industry sector and geographic region. We have established portfolio thresholds to manage the associated credit risk on an aggregate basis. We review these thresholds every six months to ensure they are still appropriate, given Canada's current business landscape. This way, we manage the impact of correlations between exposures and protect BDC against the potential negative economic impact of such events as pandemics or international trade disputes. Concentration limits related to individual client maximum commitment are recommended to the Portfolio Outlook Committee and approved by the Board.

Our portfolio management information system allows us to quickly identify trends by providing weekly information on five risk indicators for new loans and nine performance indicators for the portfolio as a whole. Risk indicators are disaggregated by industry, geographic sector, business solution, loan size, loan purpose or any combination thereof. Alert reports enable managers to take any corrective action needed.

Managing Market Risk in the Venture Capital Portfolio

Early-stage venture capital investments are notoriously risky by nature. They are also a public policy imperative: Canada's knowledge-based economy needs them. The long-term recipe for national prosperity must include globally successful companies that specialize in highly innovative sectors, such as life sciences and information technology.

Venture capital investments take great patience. It takes many years, millions of dollars and a sequenced range of separate, sophisticated skills to turn an innovative idea or technology into a profitable global company. Usually, it is only when the innovation has led to a profitable company that investors can sell their stake to make a profit. This means that, initially, venture capital investments consume more capital than they generate.

The vagaries of financial markets, as well as the presence and appetite of buyers, dictate the timing of our divestments. This timing, in turn, affects the value of our venture capital investments. In fiscal 2008, there were few opportunities for profitable divestment.

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices. To manage this risk in our venture capital portfolio, we use a rigorous selection process and work closely with our investee companies. Because market risk is due to external events beyond our control, we use sophisticated financial instruments to keep risk exposure within approved limits.

We investigate the firm's products and services before we invest, and favour breakthrough products and services that are unique or that have clear advantages over existing ones. We also assess the experience, expertise and commitment of the firm's managers. Finally, we study the size and dynamics of the market in which the firm is operating, as well as any competing firms that exist or that might develop in the foreseeable future. Where we deem it prudent, we hire outside experts to independently validate our findings.

We also lower the risk of our venture capital investments by applying conservative company valuations, co-investing with other venture capital investors and monitoring investments regularly. We divest our successful venture capital interests when the investee companies are taken over by other companies, or when they go public through an initial public offering.

The Internal Venture Capital Committee, composed of senior managers, reviews all investment transactions and approves those within the committee's delegated limits. For larger transactions, this committee makes recommendations to the Credit/Investment and Risk Committee of the Board for approval.

Managing Operational Risk

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or external events beyond our control. BDC has internal control systems and processes for its business transactions. A comprehensive set of policies and procedures governs the way we process information, administer loans, manage human resources and carry out our activities. When we review our top risks, we include the action plans that govern operational risks.

We review written-off accounts and identify any operational risks associated with loan operations. By compiling these risks, we can modify our internal control procedures, if necessary.

We have a comprehensive business recovery planning process to ensure the continuity of key business functions in case of disaster. We regularly review and test our contingency planning, including the ways we would prepare for and respond to a flu pandemic.

We manage the risks associated with technology and telecommunications failures by replacing and upgrading computer systems and equipment. We have security and control procedures to respect laws and privacy standards, and to ensure that we keep our information accurate and manage it efficiently. We regularly test these systems to ensure they are reliable.

To mitigate operational risk, we use internal control systems, policies and procedures. We monitor these tools at various levels in our organization and verify them by internal audit.

Managing Treasury Risk

Each day and at several internal levels, in compliance with established policies, we monitor the risks inherent in BDC's treasury operations. The Asset and Liability Committee meets quarterly to review treasury operations and to ensure we are responsibly managing our financial risks. It also reports quarterly to the Board of Directors.

Liquidity risk: The primary responsibility of BDC's treasury operations regarding liquidity management is to ensure that BDC can meet its payment obligations in a timely, cost-effective way. We have a well-defined liquidity and investment management policy, which includes liquidity limits that the Treasury Risk Management Unit monitors daily. BDC's policy also includes clear guidelines for issuing institutions, all of which have credit ratings of "A" or better, as assessed by an external rating agency. This approach ensures that we place our short-term investments in liquid assets that we can access when we need to.

Market risk: BDC funds its operations by issuing commercial paper and mid- to long-term notes. BDC is permitted to issue debt in domestic and foreign markets, using various types of currencies and structures, as long as we eliminate exposure to foreign currency or foreign interest rate fluctuations, as required by the Department of Finance. We complete all hedging transactions with approved high-quality counterparties, all of which have credit ratings of "A-" or better, as assessed by an external rating agency.

We have never held and have no exposure to non-bank asset-backed commercial paper.

Interest rate risk: We make loans with both floating and fixed interest rates, try to ensure that our borrowing strategies match these types of loans wherever possible, and use derivative instruments to manage any gaps. The graph on page 42 shows BDC's asset and liability position as of March 31, 2008, after taking into account derivative transactions.

BDC's treasury risk policy helps us proactively manage market risk exposure arising from potential adverse movements in interest rates. The policy aims to minimize the impact of these variations on net interest income and BDC's economic value. BDC establishes acceptable ranges on the sensitivity of the net interest income based on projections over the next 12 months when subject to a parallel movement of the Canadian yield curve of 200 basis points.

Issuer/counterparty risk: To mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to issuers and derivative counterparties. The Treasury Risk Management Unit also ensures that BDC enters into prescribed derivative transactions with counterparties that have an acceptable credit rating and that have signed an International Swaps and Derivatives Association (ISDA)

master agreement. The ISDA agreement includes a credit support annex, which defines a limit over which a collateral transfer is required from the counter-party to bring the value of its credit risk exposure back under the threshold amount. Finally, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have acceptable credit ratings.

Managing Environmental Risk

We have a well-defined process for identifying and evaluating environmental risk when we authorize a loan. We also have a monitoring process to ensure that we continue to identify and appropriately manage these potential risks.

Managing Reputational Risk

We systematically identify the issues (current and potential) that may pose challenges to our reputation. To each we assign an action plan and resources. We increase our awareness of society's expectations of BDC through dialogue with our stakeholders – first and foremost Parliament and our shareholder, the Government of Canada.

Risk Model

FINANCIAL RISK

Loan credit risk

Loan portfolio concentration risk

Venture capital portfolio risk

Treasury risk

OPERATIONAL RISK

Human resources

Process management

Systems management

Legal

Compliance

TREASURY INTEREST RATE SENSITIVITY ASSET AND LIABILITY GAP

as at March 31, 2008 ($ in millions)

	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive**
Assets*	7,442	402	2,103	738	790
Liabilities	8,228	216	500	170	0

* Before allowance for credit losses.

** Excludes derivative assets, other assets, derivative liabilities and other liabilities.

5.

ACCOUNTING AND CONTROL MATTERS

CRITICAL ACCOUNTING ESTIMATES

BDC's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. Certain of these policies, as well as estimates made in applying such policies, are considered critical, as they require significant judgements by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies and estimates are reviewed and applied consistently from period to period. Critical accounting policies include those related to the allowance for credit losses and the fair value of financial instruments, including venture capital and subordinate financing investment, as well as pension and other employee future benefits.

Allowance for Credit Losses

The allowance for credit losses is management's estimate of probable credit-related losses in the financing portfolio. The allowance for credit losses comprises the specific allowance and the general allowance. Management determines the specific allowance by identifying and determining losses related to impaired loans, and determines the general allowance by assessing probable existing losses in the performing portfolio.

BDC determines the allowances based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make certain assumptions and judgements, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on relevant experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends in relation to impairments, write-offs and recoveries, and portfolio characteristics and composition; and (vii) determining the current position of economic and credit cycles. Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level.

BDC maintains its allowance for credit losses at an adequate level, taking into consideration the relatively high risk profile of its financing activities. Note 2 to the Consolidated Financial Statements details the methods used to calculate the allowance for credit losses.

Fair Value of Financial Instruments

With the adoption of the four new accounting standards related to financial instruments on April 1, 2007, a greater portion of our Consolidated Balance Sheet is now measured at fair value. Under the new standards, all financial instruments are required to be measured at fair value on initial recognition. In subsequent periods, they are measured at fair value, except for items classified as loans and receivables, or as other financial liabilities, which are measured at amortized cost. A more complete description of the accounting treatment of financial instruments is presented in Note 2 to the Consolidated Financial Statements.

Fair value is the price an unrelated knowledgeable party would pay or receive for a financial instrument. Published price quotations in an active market are the best evidence of fair value and, when they exist, BDC uses them to measure financial instruments. If a financial instrument's market is not active, its fair value is established using valuation techniques that make use of observable market inputs.

Investments held by investment companies are also recorded at fair value under generally accepted accounting principles (GAAP). As most of these investments are

in private companies, no readily available market value exists and judgement is required in determining their fair value. BDC derives its approach to fair value measurement from investment industry guidelines. Note 2 to the Consolidated Financial Statements details the methods BDC uses to estimate the fair value of its investments. Fair value is management's best estimate and involves significant assumptions, such as the capitalization or discount rate.

Due to the judgement used in calculating fair values, they are not necessarily comparable among financial institutions and may not be indicative of net realizable value.

Pension and Other Employee Future Benefits

BDC provides defined benefit pension plans and other benefit plans to eligible employees after their retirement. These plans include a registered pension plan, supplemental pension plans and other plans, such as plans for post-retirement and post-employment benefits.

Actuaries calculate the pension and other employee future benefits expense using various assumptions that management determines. These assumptions include discount rates, expected rates of return on assets, health care cost trends, inflation rates, projected salary increases and mortality rates. Actual experience that differs from the actuarial assumptions used will affect the amount of benefit obligation, and the expense could increase or decrease significantly in future years.

Notes 2 and 20 to the Consolidated Financial Statements present the key assumptions used and describe their sensitivity.

FUTURE CHANGES IN ACCOUNTING POLICIES

In December 2006, the CICA published three new standards: Section 1535 *Capital Disclosure*; Section 3862 *Financial Instruments—Disclosure*; and Section 3863 *Financial Instruments—Presentation*. These standards will apply to BDC for the year ending March 31, 2009.

Capital Disclosure

Section 1535 establishes requirements to disclose both qualitative and quantitative information on capital management. It requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) any capital requirements with which the entity has complied; and (iv) the consequences of non-compliance with such capital requirements.

Financial Instruments: Disclosure and Presentation

Sections 3862 and 3863 establish comprehensive disclosure and presentation requirements related to financial instruments. The standards revise the current disclosure requirements of CICA Handbook Section 3861, *Financial Instruments—Disclosure and Presentation,* and place an increased emphasis on disclosures regarding the risks associated with financial instruments and the way these risks are managed.

International Financial Reporting Standards (IFRS)

BDC prepares its financial statements in accordance with Canadian GAAP as defined by Canada's Accounting Standards Board (AcSB). The AcSB has announced its intention to converge Canadian GAAP with international financial reporting standards (IFRS). Effective April 1, 2011, as a Canadian publicly accountable enterprise, BDC will have to apply IFRS as a basis for financial reporting. This change is part of a worldwide shift to IFRS intended to facilitate global capital flows and to bring greater clarity and consistency to financial reporting in the global marketplace. Under its IFRS Conversion Project, BDC has already finished identifying major differences between IFRS and Canadian GAAP, and completed the detailed plan for the next stages of the project.

CONTROLS AND PROCEDURES

In fiscal 2006, BDC decided to implement a certification regime on internal controls that will do the following:

- reinforce management responsibility for financial reporting;
- encourage development and documentation of effective internal controls over financial reporting;
- encourage development of effective disclosure controls and procedures; and
- contribute to sound corporate governance practices.

BDC has already completed two of the three phases of the Internal Control Certification (ICC) Project:

- overall scoping and planning; and
- establishment of disclosure controls and procedures – including a disclosure policy, a disclosure committee and an inventory of disclosure items – and the documentation of key disclosure processes and controls.

BDC expects to complete the final phase of the ICC Project, focusing on internal control over financial reporting, at the end of fiscal 2009. This phase will centre on three types of controls: entity-level controls, process-level controls and information technology general controls.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Consolidated Financial Statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the Vice President, Internal Audit and the independent auditors have full and free access to the Audit Committee of the Board of Directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee, which comprises directors who are not employees of BDC, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada, have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Jean-René Halde
President and Chief Executive Officer
Montréal, Canada
May 23, 2008

Paul Buron, CA
Executive Vice President
and Chief Financial Officer

AUDITOR'S REPORT

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2008 and the consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the changes in accounting policies adopted in the current year as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank and of its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank and the charter and the by-laws of its wholly-owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada
Montréal, Canada
May 23, 2008

Raymond Chabot Grant Thornton LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at March 31 ($ in thousands)

	2008	2007
Assets		
Cash and cash equivalents (Note 4)	**$ 725,376**	$ 764,803
Securities (Note 5)	**91,210**	164,266
	816,586	929,069
Loans, net of allowance for credit losses (Note 6)	**9,481,449**	8,622,646
Subordinate financing loans and investments (Note 7)	**156,158**	148,290
Venture capital investments (Note 8)	**475,985**	505,118
	10,113,592	9,276,054
Fixed assets, net of accumulated amortization (Note 9)	**28,271**	33,882
Derivative assets (Note 17)	**206,882**	442,368
Other assets (Note 10)	**258,235**	122,708
	493,388	598,958
Total Assets	**$ 11,423,566**	$ 10,804,081
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	**$ 65,503**	$ 67,013
Accrued interest on borrowings	**34,144**	28,408
	99,647	95,421
Borrowings (Note 11)		
Short-term notes	**5,197,591**	3,974,496
Long-term notes	**3,788,058**	4,253,371
	8,985,649	8,227,867
Derivative liabilities (Note 17)	**321,805**	530,302
Other liabilities (Note 12)	**149,148**	142,773
	470,953	673,075
Shareholder's Equity		
Share capital (Note 13)	**1,038,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**803,967**	741,540
Accumulated other comprehensive income (loss)	**(2,828)**	–
	1,867,317	1,807,718
Guarantees, contingent liabilities and commitments (Note 19)		
Total Liabilities and Shareholder's Equity	**$ 11,423,566**	$ 10,804,081

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Approved by the Board:

Stan Bracken-Horrocks
Director
Chairperson, Audit Committee

Jean-René Halde
Director
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 ($ in thousands)

	2008	2007
Financing		
Interest income		
Loans	$ 798,805	$ 737,634
Cash equivalents and securities	47,880	41,360
	846,685	778,994
Interest expense	372,872	330,538
Net interest income	473,813	448,456
Other income	33,399	28,548
Provision for credit losses (Note 6)	101,482	67,890
Income before operating and administrative expenses	405,730	409,114
Operating and administrative expenses (Note 15)	244,852	241,122
Income from Financing	160,878	167,992
Subordinate Financing		
Interest income	18,446	17,876
Interest expense	4,715	4,098
Net interest income	13,731	13,778
Realized gains and losses on investments and other income	10,014	13,755
Change in unrealized depreciation of investments	(299)	(7,253)
Income before operating and administrative expenses	23,446	20,280
Operating and administrative expenses (Note 15)	12,439	12,335
Income from Subordinate Financing	11,007	7,945
Venture Capital		
Net realized losses on investments	(40,902)	(1,153)
Interest, dividends and other	9,713	8,275
Net gains on foreign exchange contracts	11,176	1,402
Change in unrealized depreciation of investments	(49,997)	(27,428)
Loss before operating and administrative expenses	(70,010)	(18,904)
Operating and administrative expenses (Note 15)	12,791	14,700
Loss from Venture Capital	(82,801)	(33,604)
Consulting		
Revenue	24,802	23,523
Operating and administrative expenses (Note 15)	29,323	27,849
Loss from Consulting	(4,521)	(4,326)
Net Income	$ 84,563	$ 138,007

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 14 provides additional information on earnings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31 ($ in thousands)

	2008	2007
Net income	**$ 84,563**	$ 138,007
Other comprehensive income (loss)		
Net change in unrealized gains on available-for-sale assets	**283**	–
Net change in fair value of cash flow hedges	**(584)**	–
Other comprehensive income (loss)	**(301)**	–
Comprehensive income	**$ 84,262**	$ 138,007

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended March 31 ($ in thousands)

	2008	2007
Share capital (Note 13)	**$ 1,038,400**	$ 1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings, beginning of year	**741,540**	625,099
Transition adjustment on financial instruments (Note 2)	**(639)**	–
Net income	**84,563**	138,007
Dividends on common shares	**(12,048)**	(12,131)
Dividends on preferred shares	**(9,449)**	(9,435)
Retained earnings, end of year	**803,967**	741,540
Accumulated other comprehensive income (loss), beginning of year	–	–
Transition adjustment on financial instruments (Note 2)	**(2,527)**	–
Other comprehensive income (loss)	**(301)**	–
Accumulated other comprehensive income (loss), end of year	**(2,828)**	–
Total Retained earnings and Accumulated other comprehensive income (loss)	**801,139**	741,540
Total Shareholder's equity	**$ 1,867,317**	$ 1,807,718

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31 ($ in thousands)

	2008	2007
Cash Flows Provided by Operating Activities		
Net income	$ 84,563	$ 138,007
Adjustments to determine net cash flows:		
Net realized losses (gains) on investments	43,504	(1,927)
Change in unrealized depreciation on investments	50,296	34,681
Net unrealized losses (gains) on financial instruments	5,302	(630)
Unrealized loss (gain) on foreign exchange contract	2,902	(1,402)
Provision for credit losses	101,482	67,890
Amortization of fixed assets	13,169	13,162
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	1,550	(6,585)
Change in accrued interest on borrowings	5,736	7,202
Translation adjustment on borrowings and securities	70,475	(86,588)
Transition adjustment on financial instruments	(3,166)	–
Change in fair value of derivative financial instruments	(156,817)	124,071
Change in fair value of securities and long-term notes	91,674	–
Net change in other assets and other liabilities	44,913	(32,198)
Net Cash Flows Provided by Operating Activities	355,583	255,683
Cash Flows Used in Investing Activities		
Purchases of securities	–	(75,018)
Maturities of securities	78,011	98,814
Disbursements for loans and subordinate financing	(2,880,580)	(2,484,922)
Repayments of loans and subordinate financing	1,907,687	1,922,286
Disbursements for venture capital investments	(129,682)	(133,364)
Proceeds on sales of venture capital investments	67,915	31,044
Acquisition of fixed assets	(7,558)	(9,383)
Net Cash Flows Used in Investing Activities	(964,207)	(650,543)
Cash Flows Provided by Financing Activities		
Net change in short-term notes	1,193,562	(190,799)
Issue of long-term notes	490,228	1,113,479
Repayment of long-term notes	(1,093,111)	(494,900)
Dividends paid on common and preferred shares	(21,482)	(20,847)
Net Cash Flows Provided by Financing Activities	569,197	406,933
Net (decrease) increase in cash and cash equivalents	(39,427)	12,073
Cash and cash equivalents at beginning of year	764,803	752,730
Cash and cash equivalents at end of year (Note 4)	$ 725,376	$ 764,803
Supplemental Disclosure of Cash Flow Information		
Amount of interest paid in the year	$ 364,406	$ 327,426

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

Act of Incorporation, Objectives and Operations of the Corporation 1

The Business Development Bank of Canada (BDC) is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament on July 13, 1995. BDC is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of BDC are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. BDC offers Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further BDC's activities.

To finance these objectives, BDC issues debt instruments, which are secured by the Government of Canada. *The Business Development Bank of Canada Act* (BDC Act) also allows the issuance of hybrid capital instruments to provide the capital required to meet the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2008.

BDC is for all purposes an agent of Her Majesty in right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* and is accountable for its affairs to Parliament through the Minister of Industry.

Significant Accounting Policies 2

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for losses on loans, actuarial estimates of employee future benefits and fair values of financial instruments including venture capital and subordinate financing investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these management judgements. The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized on the following pages.

BASIS OF CONSOLIDATION

BDC conducts business through a variety of corporate structures, including a subsidiary and joint ventures. The subsidiary is controlled through 100% ownership of its voting shares. Joint ventures are those where BDC, or its subsidiary, exercises joint control through an agreement with third parties. All of the assets, liabilities, revenues and expenses of the wholly owned subsidiary, as well as BDC's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures, are included in these Consolidated Financial Statements. Joint ventures held by BDC's subsidiary are recorded at fair value. All inter-company transactions and balances have been eliminated.

SIGNIFICANT ACCOUNTING CHANGES

On April 1, 2007, BDC adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement;* Section 3865, *Hedges;* and Section 3861, *Financial Instruments – Disclosure and Presentation*. These standards were applied prospectively.

Financial Instruments – Comprehensive Income

Section 1530 introduces Comprehensive income, which consists of Net income and Other comprehensive income (loss) (OCI). OCI represents changes in Shareholder's equity, during a period arising from transactions and other events that include unrealized gains and losses on financial assets classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. The Consolidated Financial Statements include a Statement of Comprehensive Income for the changes in these items since April 1, 2007, while the cumulative changes in OCI are included in Accumulated other comprehensive income (loss) (AOCI), which is presented as part of Shareholder's equity on the Balance Sheet.

2 – Significant Accounting Policies (continued)

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Balance Sheet when BDC becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for all financial instruments. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in Net income. Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recognized in OCI. Financial assets classified as loans and receivables, and other financial liabilities, are measured at amortized cost. Derivative instruments are recorded on the Balance Sheet at fair value. Changes in the fair value of derivative instruments are recognized in Net income, except for derivatives designated as effective cash flow hedges or hedges of foreign currency exposure, for which the changes in fair value are recognized in OCI. BDC accounts for all financial instruments using settlement date accounting.

As at April 1, 2007, BDC recognized all of its financial assets and liabilities according to their classification. Any adjustment made to a previous carrying amount was recognized as an adjustment to the balance of Retained earnings at that date or as an adjustment to the balance of AOCI:

	Retained earnings	AOCI
Derivative financial instruments – fair value adjustments	$ (215,201)	$ 7,781
Long-term borrowings designated as held-for-trading	214,559	–
Securities classified as available-for-sale	–	(10,321)
Cash equivalents classified as available-for-sale	–	13
Cash equivalents classified as held-for-trading	3	–
	$ (639)	$ (2,527)

Financial Instruments – Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. BDC uses derivatives and non-derivative financial instruments in hedging strategies to manage exposures to interest, currency and other market risks. BDC determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge or a cash flow hedge.

Embedded Derivatives

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments. They are then measured at fair value; changes in fair value are recognized in Net income, and transaction costs from these embedded derivatives are recognized in Net income as operating and administrative expenses. As at March 31, 2008, BDC has no hybrid instrument including embedded derivatives that should be separated from the host contract.

LOANS

Following the implementation of Section 3855, *Financial Instruments – Recognition and Measurement,* loans were classified as loans and receivables. They are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis, except for loans that are considered impaired.

Loans are classified as impaired when there is deterioration in credit quality to the extent that BDC no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of Interest income ceases and any previously accrued interest that is unpaid is reversed against Interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case Interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded either as Interest income or as a reduction of the provision for credit losses.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in BDC's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the Balance Sheet date. The allowance is increased by an annual provision for credit losses, which is charged against income and is reduced by write-offs, net of recoveries. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely.

The allowance for credit losses comprises specific and general allowances.

2 – Significant Accounting Policies (continued)

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent at the date of the impaired loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances, as well as subsequent changes thereto, are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the Balance Sheet date for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

INVESTMENTS

Venture capital investments and Subordinate financing investments are measured and presented at fair value.

Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents management's best estimate of the net worth of an investment at the Balance Sheet date and may not reflect the ultimate realizable value upon the disposition of the investment.

Gains and losses on investments are recognized at the time of disposal or write-off. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. Net gains on foreign exchange contracts represent realized and unrealized gains and losses on foreign exchange contracts classified as held-for-trading and measured at fair value. Changes in unrealized appreciation and depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the Balance Sheet date.

BDC's approach to fair value measurement has been derived from international guidelines. Based on the type of investments BDC carries out, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

FIXED ASSETS AND AMORTIZATION

Fixed assets are recorded at cost and amortized using the straight-line method over the estimated useful life of the asset as follows:

Computer and telecommunication equipment	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	6 years
Systems development costs	3 to 7 years

PREMIUMS AND DISCOUNTS ON BORROWINGS

Premiums and discounts on borrowings are amortized over the life of the obligation using the effective interest rate method.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. With the exception of financial instruments classified as available-for-sale, foreign exchange gains and losses are included in Net income for the year. Exchange gains and losses for financial instruments classified as available-for-sale are included in OCI.

DERIVATIVE FINANCIAL INSTRUMENTS

BDC enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from Balance Sheet positions. BDC's policy is not to use derivative financial instruments for trading or speculative purposes.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps and forward foreign exchange contracts are used to manage exposure resulting from foreign currency-denominated borrowings and securities.

BDC has recently implemented the new accounting standards Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges*. Derivatives not under hedge accounting are classified as held-for-trading and are measured at fair value with changes recorded in Net income. Derivatives under hedge accounting are designated as cash flow hedges and are measured at fair value with changes recorded in OCI.

BDC documents all hedge relationships and its risk management objective along with its strategy for carrying out the hedge transactions. This process includes linking these derivative instruments to assets and liabilities on the Consolidated Financial Statements. BDC assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items, both at inception and over the life of the hedge. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of Interest expense over the term of the forward contract.

2 – Significant Accounting Policies (continued)

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other benefit plans, such as post-employment benefits and post-retirement benefits for eligible employees.

The cost of pension and other employee future benefits earned by employees is determined annually on an actuarial basis using the projected benefit method, pro-rated on service and management's best estimate assumptions, such as the expected long-term rate of return on plan assets, discount rate, rate of compensation increase, inflation, retirement ages of employees and other factors.

The pension costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, and the amortization of net actuarial gains and losses, past service costs, and transitional assets and obligations. The market-related value of plan assets is used for the purpose of calculating the expected return on plan assets. The market-related value of plan assets is established as follows:

- Short-term investments are valued at quoted market rates of return.
- Bonds are valued at market rates.
- Common and preferred shares are valued at fair value based on published closing prices on the stock exchange on which they are listed, or at the average of the last bid and ask prices if the instruments were not traded on the fair value evaluation date.

Actuarial gains (losses) on plan assets arise from the difference between the actual return (loss) on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

Each fiscal year, actuaries determine whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of BDC's active employees. Amounts that fall within the 10% corridor are not amortized. The average remaining service period of the active employees covered by:

- the registered and supplemental pension plans is 8.1 years (8.2 years in 2007); and
- the post-retirement benefits plan other than pension is 8.0 years (8.0 years in 2007).

Amortization of transitional assets and obligations relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, BDC had transitional assets and obligations that are now being amortized to expense on a straight-line basis over the average remaining service period of BDC's active employees expected to receive benefits under the benefit plans as of April 1, 2000. This period was 8.5 years for the registered pension plan and the supplemental pension plans.

The measurement date is December 31 for the pension plans and March 31 for the other benefit plans.

Future Accounting Changes 3

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

On December 1, 2006, the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures;* and Section 3863, *Financial Instruments – Presentation*. These new standards will apply to BDC for the year ending March 31, 2009.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and about the way the entity manages those risks.

Cash and Cash Equivalents 4

	2008	2007
Bank account balances, net of cheques outstanding	$ (15,368)	$ (4,984)
Short-term bank notes		
Available-for-sale	710,432	769,787
Held-for-trading	30,312	–
	740,744	769,787
Cash and cash equivalents	$ 725,376	$ 764,803

Cash equivalents include short-term bank notes that have maturities at the original acquisition date of less than 90 days. As at March 31, 2008, cash equivalents have been classified as available-for-sale and held-for-trading.

AVAILABLE-FOR-SALE

Available-for-sale bank notes are measured at fair value with unrealized gains and losses recorded in OCI until the security is sold. Gains and losses on disposal are recorded in Other income. Interest income earned on available-for-sale bank notes is recorded in Interest income.

HELD-FOR-TRADING

Held-for-trading bank notes are notes that BDC purchases for resale over a short period of time. BDC records these bank notes at their market value and records the mark-to-market adjustments in Net interest income, and any gains and losses on the sale of these bank notes in Other income. Interest income earned on held-for-trading cash equivalents is recorded in Interest income.

The fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using market prices of similar cash equivalents.

Securities 5

	Term to maturity		2008	2007
	Within 1 year	1 to 3 years	Total	Total
Financial institutions				
Amortized cost	$ 40,810	$ 50,242	$ 91,052	$164,266
Yield	4.50 %	4.80 %	4.67 %	4.54 %
Fair value	$ 40,905	$ 50,305	$ 91,210	$163,956
Gross unrealized gains			$ 158	$ 65
Gross unrealized losses			–	375
Interest income from securities			$ 5,437	$ 9,016
Securities in foreign currencies				
US dollars – amortized cost			$ 15,400	$ 35,900
Euros – amortized cost			€ 31,000	€ 31,000
Total in Canadian dollars*			$ 66,188	$ 89,249

* Included in the fair value of securities in 2008 and amortized cost in 2007.

BDC holds securities for liquidity purposes based on policies approved by the Board of Directors. Section 18(3) of the BDC Act defines the nature of securities that can be held by BDC.

All securities held as at March 31, 2008, are classified as available-for-sale. Available-for-sale securities are measured at fair value with unrealized gains and losses recorded in OCI until the security is sold. Gains and losses on disposal are recorded in Other income. Interest income earned on available-for-sale securities is recorded in Interest income. Available-for-sale securities consist of debt securities that may be sold in response to or in anticipation of changes in counterparty credit risk evaluations, to meet liquidity needs or interest rate fluctuations

5 – Securities (continued)

All securities held as at March 31, 2008, were issued by Canadian entities at fixed or floating rates. Yields are based upon carrying values and contractual interest adjusted for amortization of premiums and discounts. Term-to-maturity classifications are based on the contractual maturity of the security. The fair value is based on market quotes, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, BDC has entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and foreign exchange risks associated with the above securities.

Loans 6

The following table summarizes loans outstanding as at March 31. Floating rate loans are classified based on their maturity date and fixed rate loans are classified based on the repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	**Total net amount**
Performing	**$ 566,213**	**$ 2,816,279**	**$ 6,338,176**	**$ 9,720,668**	**$ (420,558)**	**$ –**	**$ (420,558)**	**$ 9,300,110**
Impaired	**6,142**	**88,683**	**198,621**	**293,446**	**–**	**(112,107)**	**(112,107)**	**181,339**
Loans as at March 31, 2008	**$ 572,355**	**$ 2,904,962**	**$ 6,536,797**	**$ 10,014,114**	**$ (420,558)**	**$ (112,107)**	**$ (532,665)**	**$ 9,481,449**
Loans as at March 31, 2007*	$ 423,520	$ 2,613,143	$ 6,091,482	$ 9,128,145	$ (399,158)	$ (106,341)	$ (505,499)	$ 8,622,646

* Includes $286,500 of impaired loans.

Included in these loan figures are $9.4 million of foreclosed assets ($15 million in 2007). Foreclosed assets represent property or other assets BDC has received from borrowers to satisfy their loan commitments, and are recorded at fair value. Fair value is determined at market prices, where available, or other methods including an analysis of discounted cash flows.

ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31.

	2008	2007
Balance at beginning of year	**$ 505,499**	$ 497,319
Write-offs and other	**(76,031)**	(60,057)
Interest income due to accretion	**(4,398)**	(4,303)
Recoveries	**6,113**	4,650
	$ 431,183	$ 437,609
Provision for credit losses	**101,482**	67,890
Balance at end of year	**$ 532,665**	$ 505,499

The concentrations of the total loans outstanding by province and territory, and by industry sector, as at March 31 are set out in the tables below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic distribution		**2008**		2007
Newfoundland and Labrador	**$ 388,073**	**3.9%**	$ 364,160	4.0%
Prince Edward Island	**49,626**	**0.5%**	51,041	0.6%
Nova Scotia	**256,558**	**2.6%**	227,840	2.5%
New Brunswick	**413,277**	**4.1%**	361,661	4.0%
Quebec	**3,625,688**	**36.2%**	3,479,332	38.1%
Ontario	**3,146,308**	**31.4%**	2,893,821	31.7%
Manitoba	**230,586**	**2.3%**	212,889	2.3%
Saskatchewan	**168,877**	**1.7%**	136,565	1.5%
Alberta	**785,853**	**7.8%**	592,646	6.5%
British Columbia	**884,091**	**8.8%**	750,963	8.2%
Yukon	**40,368**	**0.4%**	31,080	0.3%
Northwest Territories and Nunavut	**24,809**	**0.3%**	26,147	0.3%
Total loans outstanding	**$ 10,014,114**	**100.0%**	$ 9,128,145	100.0%

6 – Loans (continued)

Industry sector	2008		2007	
Manufacturing	$ 3,373,957	33.7%	$ 3,182,055	34.9%
Wholesale and retail trade	2,154,678	21.5%	1,956,433	21.4%
Tourism	1,167,434	11.7%	1,052,529	11.5%
Construction	597,948	6.0%	533,698	5.8%
Transportation and storage	531,452	5.3%	480,664	5.3%
Commercial properties	473,171	4.7%	418,532	4.6%
Business services	446,561	4.4%	361,039	4.0%
Other	1,268,913	12.7%	1,143,195	12.5%
Total loans outstanding	$10,014,114	100.0%	$ 9,128,145	100.0%

Subordinate Financing Loans and Investments 7

The following table summarizes Subordinate financing loans and investments outstanding as at March 31. Floating rate loans and investments are classified based on their maturity date, and fixed rate loans and investments are classified based on their repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation and other	Total net amount
As at March 31, 2008						
Loans	$ 8,384	$ 4,464	$ –	$ 12,848	$ (2,597)	$ 10,251
Investments	8,577	127,028	16,490	152,095	(6,188)	145,907
Total	$ 16,961	$ 131,492	$ 16,490	$ 164,943	$ (8,785)	$ 156,158
As at March 31, 2007						
Loans	$ 7,985	$ 21,615	$ –	$ 29,600	$ (3,150)	$ 26,450
Investments	4,480	101,809	21,646	127,935	(6,095)	121,840
Total	$ 12,465	$ 123,424	$ 21,646	$ 157,535	(9,245)	$ 148,290

BDC holds a portfolio of subordinate financing investments through its joint ventures with the Caisse de dépôt et placement du Québec, AlterInvest Fund L.P., AlterInvest II Fund L.P., and AlterInvest Investment Fund Inc. BDC acts as the general partner of the limited partnerships.

The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2008	2007
Current assets	$ 14,843	$ 6,670
Subordinate financing investments	145,907	121,840
Current liabilities	255	347
Net interest income	$ 15,655	$ 12,200
Realized gains on investments and other income	1,823	5,012
Change in unrealized depreciation of investments	(53)	(6,095)
Operating and administrative expenses	5,904	4,667
Income from subordinate financing investments	$ 11,521	6,450
Cash flows provided by (used in):		
Operating activities	$ 12,669	$ 10,673
Investing activities	(24,120)	(32,730)
Financing activities	20,811	27,107

Venture Capital Investments 8

BDC maintains a portfolio of venture capital investments that is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.1% of total venture capital investments (3.3% in 2007).

		2008		2007
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology, medical and health	**$ 145,281**	**$ 184,376**	$ 143,451	$ 171,792
Information technology	**101,710**	**121,733**	102,330	135,674
Electronics	**70,144**	**86,246**	93,032	103,524
Communications	**91,124**	**108,902**	94,566	89,052
Industrial	**17,176**	**21,185**	22,019	24,688
Consumer-related	**200**	**200**	1,000	2,000
Energy	**1,572**	**1,250**	3,193	5,500
Other	**4,000**	**750**	5,000	750
Total direct investments	**431,207**	**524,642**	464,591	532,980
Funds	**$ 44,778**	**$ 76,793**	$ 40,527	$ 68,179
Venture capital investments	**$ 475,985**	**$ 601,435**	$ 505,118	$ 601,159

Investments are generally held for periods longer than five years. Divestitures are made through listings of investee shares on public markets, or the sale of BDC's shares to other existing shareholders or to third parties.

Investment yields vary from year to year, as the fair value changes of the investments are brought into income. The following table presents a summary of the venture capital portfolio by type of investment.

		2008		2007
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**$ 57,964**	**$ 92,134**	$ 80,367	$ 93,811
Preferred shares	**322,978**	**375,497**	331,218	374,374
Debentures	**50,265**	**57,011**	53,006	64,795
Funds	**44,778**	**76,793**	40,527	68,179
Venture capital investments	**$ 475,985**	**$ 601,435**	$ 505,118	$ 601,159

Fixed Assets 9

	Cost	**Accumulated amortization**	**Carrying value**
Computer and telecommunication equipment	**$ 33,413**	**$ 29,532**	**$ 3,881**
Furniture, fixtures and equipment	**43,884**	**38,228**	**5,656**
Leasehold improvements	**48,171**	**38,804**	**9,367**
Systems development costs	**38,713**	**29,346**	**9,367**
Total 2008	**$ 164,181**	**$ 135,910**	**$ 28,271**
Total 2007	$ 156,623	$ 122,741	$ 33,882

Other Assets 10

	2008	2007
Accrued benefit asset (Note 20)	$ 115,844	$ 100,672
Unamortized debt issue expenses on long-term notes	–	7,845
Future margin receivable	111,831	–
Other	30,560	14,191
	$ 258,235	$ 122,708

As part of the implementation of Section 3861, *Financial Instruments – Disclosure and Presentation*, Future margin receivable was reclassified from Derivative assets to Other assets. A future margin receivable amounting to $178,362 is included in Derivative assets in 2007 comparative figures.

Following the implementation of Section 3861, BDC also reclassified amounts receivable on swaps from Derivative assets to Other assets. An amount of $11,258 is included in Other assets in 2008, compared to $188,488 included in Derivative assets in 2007 comparative figures.

Borrowings 11

BDC issues short-term notes in money markets to fund its loan portfolio, which are measured at amortized cost. Foreign currency is hedged through the use of derivatives, such that essentially BDC's borrowings are effectively denominated in Canadian dollars. In addition, where appropriate, BDC enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks.

From time to time, BDC requests cash collateral from its counterparties when they exceed their limits under signed *International Swaps and Derivatives Association Agreements*. These transactions are recorded as short-term notes, classified as held-for-trading and measured at fair value. The table below presents the outstanding notes as at March 31.

				2008		2007
Maturity date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes/amortized cost						
2008	4.00% – 5.18%	USD	$ –	$ –	$ 1,132,765	$ 1,297,586
		CDN	–	–	2,696,680	2,676,910
2009	1.53% – 4.73%	USD	$ 682,205	$ 697,306	$ –	$ –
		CDN	4,486,704	4,469,923	–	–
				5,167,229		3,974,496
Short-term notes/held-for-trading						
2009	2.39%	USD	$ 29,600	$ 30,362	$ –	$ –
				30,362		–
Total Short-term notes				$ 5,197,591		$ 3,974,496

BDC issues long-term borrowings in capital markets to fund its loan portfolio. Effective April 1, 2007, unstructured long-term notes are recorded at amortized cost. Structured notes have been classified as held-for-trading and are recorded at fair value with unrealized gains or losses recorded in Net interest income. There is no liquid market for these structured notes, so the fair value is calculated using theoretical values. These values are determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating fair value. Prior to April 1, 2007, structured notes were accounted for under hedge accounting. They were discontinued from a hedge relationship on April 1, 2007.

11 – Borrowings (continued)

				2008		2007	
Maturity date	**2008 Effective rate***	2007 Effective rate*	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes/amortized cost							
2010 – 2012	**4.75%**		CDN	**$ 300,000**	**$ 300,000**	$ –	$ –
Long-term notes/held-for-trading							
2008		3.85%-4.26%	CDN	**–**	**–**	350,940	350,940
2009	**3.51%**	4.00%	USD	**43,000**	**42,950**	43,000	49,641
	3.16% - 4.26%	3.89% - 4.13%	CDN	**479,896**	**513,893**	398,311	402,545
2010	**3.34% - 3.39%**	4.04% - 4.10%	USD	**20,000**	**20,071**	40,000	46,178
	3.31% - 4.17%	3.90% - 4.09%	CDN	**177,822**	**224,342**	224,217	231,288
2011	**3.21% - 3.33%**	3.94% - 4.05%	USD	**17,000**	**17,687**	17,000	20,054
	3.16% - 3.57%	3.89% - 4.24%	CDN	**248,155**	**252,639**	351,811	340,896
2012	**3.33%**	4.04% - 4.08%	Yen	**500,000**	**5,146**	2,250,000	22,044
		4.07%	USD	**–**	**–**	10,000	11,544
	3.16% - 3.41%	3.89% - 4.08%	CDN	**181,832**	**215,400**	302,636	345,872
2013		4.08% - 4.09%	USD	**–**	**–**	16,000	18,471
	3.34% - 3.37%	4.06% - 4.07%	CDN	**15,000**	**18,053**	15,000	15,000
2014	**3.37%**	4.07% - 4.09%	Yen	**1,000,000**	**10,159**	5,100,000	49,965
	3.33% - 3.51%	4.04% - 4.11%	USD	**37,600**	**37,871**	93,200	107,595
	3.31% - 3.56%	3.96% - 4.07%	CDN	**105,890**	**110,327**	77,000	78,734
2015	**3.33% - 3.56%**	4.05% - 4.08%	Yen	**3,000,000**	**31,511**	3,000,000	29,392
	3.37% - 3.53%	4.05% - 4.09%	USD	**30,000**	**30,893**	45,000	51,950
	3.31% - 3.56%	3.98% - 4.07%	CDN	**127,255**	**119,021**	97,150	98,469
2016	**3.33% - 3.39%**	4.05% - 4.09%	Yen	**7,500,000**	**76,509**	11,000,000	107,769
	3.38%	4.11%	USD	**30,000**	**30,878**	40,000	46,178
	3.31%		CDN	**20,982**	**22,005**	–	–
2017	**3.33% - 3.39%**	4.06% - 4.10%	Yen	**3,700,000**	**36,140**	5,700,000	55,844
	3.30% - 3.38%	4.03% - 4.11%	USD	**43,000**	**43,314**	43,000	49,641
2018	**3.35% - 3.59%**	4.05% - 4.15%	Yen	**31,200,000**	**311,644**	34,200,000	335,063
2019	**3.32% - 3.61%**	4.04% - 4.12%	Yen	**24,700,000**	**242,526**	28,900,000	283,138
	3.38%	4.11%	USD	**25,456**	**26,567**	24,112	27,836
2020	**3.32% - 3.63%**	3.36% - 4.11%	Yen	**19,600,000**	**187,697**	25,400,000	248,848
2021	**3.30% - 3.60%**	4.03% - 4.09%	Yen	**14,960,000**	**144,639**	18,560,000	181,836
		4.09%	USD	**–**	**–**	34,554	39,890
2022	**3.34% - 3.63%**	4.07% - 4.11%	Yen	**2,400,000**	**23,823**	3,700,000	36,250
	3.26% - 4.31%	3.99% - 4.09%	CDN	**600,000**	**626,765**	570,500	570,500
2023	**2.86% - 3.63%**		Yen	**6,800,000**	**65,588**	–	–
					$ 3,488,058		$ 4,253,371
Total Long-term notes					**$ 3,788,058**		$ 4,253,371

* The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed rate issues. and yield to reset for floating rate issues.

11 – Borrowings (continued)

The preceding table includes $3,482,058 in 2008 ($4,248,621 in 2007) of long-term notes payable that have been the subject of interest rate, cross-currency interest rate, and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of BDC's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for extendable notes are presented based on their first option date. BDC has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Some notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by BDC or the note holders. The types of notes included in the previous table are as follows.

	2008	2007
Interest-bearing notes	**$ 1,206,853**	$ 838,976
Fixed and inverse floating rate notes	**708,717**	948,508
Managed futures	**540,573**	761,910
Notes linked to equity indices	**320,493**	539,257
Notes linked to currency rates	**259,364**	311,681
Notes linked to swap rates	**120,142**	164,380
Notes extendible beyond maturity	**129,852**	128,000
Other structured notes	**502,064**	560,659
	$ 3,788,058	$ 4,253,371

Long-term notes of $1,648,278 are redeemable prior to maturity ($2,301,371 as at March 31, 2007).

As at March 31, 2008, the payment requirements and maturities of long-term notes are as follows.

2009	**$ 556,843**
2010	**344,413**
2011	**370,326**
2012	**320,546**
2013	**18,053**
2014 and later	**2,177,877**
	$ 3,788,058

BDC has an available overdraft facility of $75 million, for BDC's cash accounts totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2008, BDC is not in an overdraft position.

Other Liabilities 12

	2008	2007
Deferred income	**$ 332**	$ 984
Accrued benefit liability (Note 20)	**107,932**	106,710
Other	**40,884**	35,079
	$ 149,148	$ 142,773

As part of the implementation of Section 3861, *Financial Instruments – Disclosure and Presentation*, BDC reclassified amounts payable on swaps from Derivative liabilities to Other liabilities. An amount of $11,551 is included in Other liabilities in 2008, compared to $191,249 included in Derivative liabilities in 2007 comparative figures.

Share Capital and Statutory Limitations 13

SHARE CAPITAL

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series; and
(b) An unlimited number of common shares, having a par value of $100 each.

Outstanding		2008 Number of shares	2008 Amount	2008 Dividend rate	2007 Number of shares	2007 Amount	2007 Dividend rate
Preferred shares							
Class A	– Series 1	**500,000**	**$ 50,000**	**3.535%**	500,000	$ 50,000	3.865%
	– Series 2	**500,000**	**50,000**	**4.455%**	500,000	50,000	4.455%
	– Series 3	**500,000**	**50,000**	**3.965%**	500,000	50,000	3.965%
	– Series 4	**400,000**	**40,000**	**4.130%**	400,000	40,000	3.970%
	– Series 5	**400,000**	**40,000**	**3.230%**	400,000	40,000	4.260%
			230,000			230,000	
Common shares		**8,084,000**	**808,400**		8,084,000	808,400	
Total Outstanding Share Capital			**$ 1,038,400**			$ 1,038,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A Preferred share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day to day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

STATUTORY LIMITATIONS

The aggregate of borrowings and contingent liabilities of BDC in the form of guarantees related to financial services may not exceed 12 times the shareholder's equity of BDC. BDC's ratio at March 31, 2008, was 4.8:1 (4.6:1 as at March 31, 2007).

The paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion. At March 31, 2008, these amounts totalled $1.1 billion ($1.1 billion as at March 31, 2007).

Moreover, BDC has to maintain adequate equity to reflect the relative riskiness of its assets. In particular, BDC is required to maintain minimum capital as a percentage of its net portfolio assets of at least 10% for term loans, 25% for quasi-equity loans (including subordinate financing) and 100% for venture capital investments. As shown below, BDC operates in accordance with its capital adequacy guidelines.

	2008	2007
Minimum capital required	**$ 1,544,570**	$ 1,459,980
Actual capital*	**$ 1,870,145**	$ 1,807,718

* The actual capital excludes AOCI of $2,828 in 2008.

Information Included in the Consolidated Statements of Income 14

	2008	2007
Interest income		
Financing	$ 846,685	$ 778,994
Subordinate financing	18,446	17,876
Venture capital	6,901	7,014
	$ 872,032	$ 803,884
Interest expense		
Interest on notes	$ 198,607	$ 180,397
Interest on swaps	169,300	152,329
Net unrealized losses on financial instruments	7,445	8
Other	2,235	1,902
	$ 377,587	$ 334,636
Amortization of fixed assets	$ 13,169	$ 13,162

Interest income from BDC Financing includes unrealized gains on financial instruments of $2,143 ($638 in 2007). Net gains on foreign exchange contracts from BDC Venture Capital include an unrealized loss of $2,902 compared to an unrealized gain of $1,402 in 2007.

Operating and Administrative Expenses 15

	2008				2007			
	Financing	Subordinate Financing	Venture Capital	Consulting	Financing	Subordinate Financing	Venture Capital	Consulting
Salaries and benefits	$ 156,231	$ 10,511	$ 8,945	$ 14,964	$ 149,164	$ 10,696	$ 9,894	$ 13,915
Premises and equipment	33,075	687	1,482	987	32,422	590	1,474	946
Other expenses	55,546	1,241	2,364	13,372	59,536	1,049	3,332	12,988
	$ 244,852	$ 12,439	$ 12,791	$ 29,323	$ 241,122	$ 12,335	$ 14,700	$ 27,849

Fair Value of Financial Instruments 16

The amounts set out below represent the fair values of financial instruments held or issued by BDC, using the valuation methods and assumptions referred to below. The estimated fair values represent approximate amounts at which the instruments could be exchanged between knowledgeable, willing parties in an arm's-length transaction. However, many of the financial instruments lack an available trading market. Therefore, in these cases, fair values are estimated using present value and other valuation techniques that are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

	2008			2007		
	Fair value	Carrying value	Fair value over (under) carrying value	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	$ 725,376	$ 725,376	$ –	$ 764,803	$ 764,803	$ –
Securities	91,210	91,210	–	163,956	164,266	(310)
Loans, net of allowance for credit losses	9,488,625	9,481,449	7,176	8,627,490	8,622,646	4,844
Subordinate financing loans and investments	156,158	156,158	–	148,290	148,290	–
Venture capital investments	475,985	475,985	–	505,118	505,118	–
Derivative assets	206,882	206,882	–	411,883	442,368	(30,485)
Other assets	141,543	141,543	–	21,734	21,734	–
	$ 11,285,779	$ 11,278,603	$ 7,176	$ 10,643,274	$ 10,669,225	$ (25,951)
Liabilities						
Accounts payable and accrued liabilities	$ 65,503	$ 65,503	$ –	$ 67,013	$ 67,013	$ –
Accrued interest on borrowings	34,144	34,144	–	28,408	28,408	–
Short-term notes	5,197,591	5,197,591	–	3,974,496	3,974,496	–
Long-term notes	3,797,143	3,788,058	9,085	4,304,186	4,253,371	50,815
Derivative liabilities	321,805	321,805	–	449,739	530,302	(80,563)
Other liabilities	31,329	31,329	–	24,235	24,235	–
	$ 9,447,515	$ 9,438,430	$ 9,085	$ 8,848,077	$ 8,877,825	$ (29,748)
Total			$ (1,909)			$ 3,797

Fair values are based on a range of valuation methods and assumptions, as follows.

Financial instruments valued at carrying value – The estimated fair value of the following assets and liabilities is assumed to approximate carrying value, as the items are short term in nature:

- Cash;
- Other assets and liabilities;
- Accounts payable and accrued liabilities;
- Accrued interest on borrowings; and
- Short-term notes.

Cash equivalents – The basis used to estimate the fair value of cash equivalents is provided in Note 4 to the Consolidated Financial Statements.

Securities – The basis used to estimate the fair value of securities is provided in Note 5 to the Consolidated Financial Statements.

Loans – For performing floating rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value, in accordance with the valuation methods described in Note 2 under "Allowance for credit losses".

Subordinate financing and Venture capital investments – Note 2 describes the fair value methods used by BDC.

Long-term notes – The basis used to estimate the fair value of structured long-term notes is provided in Note 11 to the Consolidated Financial Statements. Fair value of unstructured long-term notes is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar notes.

Derivative financial instruments – The basis used to estimate the fair value of derivative financial instruments is provided in Note 17 to the Consolidated Financial Statements.

Derivative Financial Instruments 17

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equity investments, indices, commodity prices or other financial measures.

TYPES OF DERIVATIVES

Swaps

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC enters into are as follows:

- *Interest rate swaps,* which involve exchange of fixed and floating rate interest payments;
- *Cross-currency interest rate swaps* which involve the exchange of both interest and notional amounts in two different currencies;
- *Equity-linked swaps*, where one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates;
- *Credit default swaps,* where one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or a change in another third party's credit rating; and
- *Commodity swaps,* where one counterparty exchanges fixed or floating rate payments based on the notional value of a commodity.

The main risk associated with these instruments is related to movements in interest rates, foreign exchange, equity and commodity prices, and exposure to counterparty credit risk.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts, and from movements in interest rates and foreign exchange rates.

HEDGING RELATIONSHIP

In compliance with *BDC's Treasury Risk Policy* and the *Treasury Board Guidelines*, BDC transacts in derivative financial instruments to hedge its foreign exchange and interest rate risk. Effective April 1, 2007, BDC has discontinued the hedging relationship of all of the structured swaps and certain interest rate swaps that did not meet the new requirements of Section 3865, *Hedges*.

Foreign Exchange Rate Risk

BDC manages the foreign exchange rate risk of its short-term borrowings through forward contracts. In addition, BDC enters into cross-currency swaps to hedge its long-term borrowings against foreign exchange rate risk. For short-term borrowings, the foreign exchange forward agreements are classified as cash flow hedging instruments and are marked-to-market with changes in fair value in OCI.

The long-term borrowing cross-currency swaps are classified as held-for-trading and changes in fair value are recorded in Net interest income.

Interest Rate Risk

In fiscal 2008, BDC entered into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. These contracts have been classified as cash flow hedging instruments. The effective portion of the hedge is recorded in OCI and the ineffective portion of the hedge is recorded in Net interest income.

17 – Derivative Financial Instruments (continued)

FINANCIAL INSTRUMENTS NOT DESIGNATED IN A HEDGING RELATIONSHIP

Interest Rate Risk

BDC also uses derivative financial instruments that have an economic hedge for its structured notes. These instruments include interest rate, cross-currency, equity-linked and credit default swaps. These instruments have been classified as held-for-trading. Prior to April 1, 2007, these transactions were designated as hedge accounting and accounted for on an accrual basis. Effective April 1, 2007, the changes in fair value of these transactions are recorded in Net interest income.

The following table provides the fair value of BDC's derivatives portfolio as at March 31 as presented by gross assets and gross liabilities values.

			2008			2007
	Gross assets	Gross liabilities	Net amount	Gross assets	Gross liabilities	Net amount
Hedging						
Interest rate swap contracts	$ 415	$ 4,066	$ (3,651)	$ 10,311	$ 13,049	$ (2,738)
Equity-linked swap contracts	–	–	–	385,667	21,847	363,820
Cross-currency interest rate swap contracts	5,665	423	5,242	11,467	399,808	(388,341)
Currency forward contracts	20,514	85	20,429	4,409	14,948	(10,539)
Total fair value – Hedging	$ 26,594	$ 4,574	$ 22,020	$ 411,854	$ 449,652	$ (37,798)
Held-for-trading[1]						
Interest rate swap contracts	$ 34,583	$ 9,905	$ 24,678	$ 3	$ –	$ 3
Equity-linked swap contracts	137,741	25,539	112,202	–	–	–
Forward rate agreements	–	–	–	26	87	(61)
Cross-currency interest rate swap contracts	7,953	279,389	(271,436)	–	–	–
Currency forward contracts	11	2,398	(2,387)	–	–	–
Total fair value – Held-for-trading	$ 180,288	$ 317,231	$(136,943)	$ 29	$ 87	$ (58)
Total fair value	$ 206,882	$ 321,805	$(114,923)	$ 411,883	$ 449,739	$ (37,856)
Total carrying value	$ 206,882	$ 321,805	$(114,923)	$ 442,368	$ 530,302	$ (87,934)

[1] 2007 figures represent the ineffective portion of the derivatives.

The fair value is an estimated price at a point in time that would be agreed upon in the marketplace, subject to the conditions that the prospective buyers and sellers are reasonably knowledgeable about the asset, and they are behaving in their own best interests and are free of undue pressure to trade.

All BDC derivatives are over-the-counter derivatives. The fair value of these derivatives is determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating fair value. The valuation takes into account the market factors of the underlying note.

17 – Derivative Financial Instruments (continued)

The following table summarizes the notional amount, by term to maturity or repricing date, and replacement cost of derivative financial instruments.

	Term to maturity or repricing								2008		2007	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	Notional amount	Replacement cost	Notional amount	Replacement cost
HEDGING												
Interest Rate Contracts												
$CDN payable-fixed	$ –	–	$ –	–	$ 100,000	4.50	$ –	–	**$ 100,000**	**$ –**	$ 186,504	$ 243
$CDN receivable-fixed	–	–	125,000	3.40	–	–	–	–	**125,000**	**415**	991,401	10,060
$US receivable-fixed	–	–	–	–	–	–	–	–	**–**	**–**	–	–
Basis swap	–	–	–	–	–	–	–	–	**–**	**–**	130,000	–
Other swap contracts	–	–	–	–	–	–	–	–	**–**	**–**	147,291	8
Equity-Linked Swap Contracts	–	–	–	–	–	–	–	–	**–**	**–**	2,163,243	385,667
	–		125,000		100,000		–		**225,000**	**415**	3,618,439	395,978
Cross-Currency Interest Rate Swap Contracts	21,500	n.a.	49,760	n.a.	–	–	–	–	**71,260**	**5,665**	2,364,066	11,467
Total	21,500		174,760		100,000		–		**296,260**	**6,080**	5,982,505	407,445
Currency Forward Contracts	680,284	n.a.	–	–	–	–	–	–	**680,284**	**20,514**	1,403,975	4,409
TOTAL HEDGING	$ 701,784		$ 174,760		$ 100,000		$ –	–	**$ 976,544**	**$ 26,594**	$ 7,386,480	$ 411,854
HELD-FOR-TRADING(1)												
Interest rate contracts												
$CDN payable-fixed	$ 113,027	4.20	$ 100,000	4.18	$ –	–	$ 170,000	4.23	**$ 383,027**	**$ –**	$ –	$ –
$CDN receivable-fixed	323,209	3.93	50,000	3.79	–	–	671,477	4.51	**1,044,686**	**33,125**	–	–
Basis swap	3,507,000	3.67	–	–	–	–	–	–	**3,507,000**	**1,449**	17,500	3
Other swap contracts	46,500	n.a.	2,431	n.a.	–	–	29,732	n.a.	**78,663**	**9**	–	–
Equity-Linked Swap Contracts	252,637	n.a.	710,052	n.a.	266,236	n.a.	182,650	n.a.	**1,411,575**	**137,741**	–	–
	4,242,373		862,483		266,236		1,053,859		**6,424,951**	**172,325**	17,500	3
Cross-currency interest rate swap contracts	67,080	n.a.	51,596	n.a.	4,757	n.a.	1,617,631	n.a.	**1,741,064**	**7,953**	–	–
Total	4,309,453		914,079		270,993		2,671,490		**8,166,015**	**180,277**	17,500	3
Currency Forward Contracts	136,306	n.a.	–	–	–	–	–	–	**136,306**	**11**	–	–
Forward Rate Agreements	–	–	–	–	–	–	–	–	**–**	**–**	666,000	26
TOTAL HELD-FOR-TRADING	$ 4,445,759		$ 914,079		$ 270,993		$ 2,671,490		**$ 8,302,321**	**$ 180,288**	$ 683,500	$ 29
TOTAL	$ 5,147,543		$ 1,088,839		$ 370,993		$ 2,671,490		**$ 9,278,865**	**$ 206,882**	$ 8,069,980	$ 411,883

n.a. – Not applicable or weighted rates are not significant.
(1) 2007 figures represent the ineffective portion of the derivatives.

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts that are in an unrealized gain position at Balance Sheet date.

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivatives contracts.

17 – Derivative Financial Instruments (continued)

Credit risk

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the gross asset values of transactions that are in an unrealized gain position.

BDC limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and BDC believes it does not have any significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties, and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. BDC's overall exposure to credit risk on derivative instruments can change substantially within a short period, since it is affected by each transaction subject to the arrangement.

Counterparty credit risk exposure	Counterparty ratings		
	AA- to AA+	A to A+	Total
Gross positive replacement cost	**$ 94,889**	**$ 111,993**	**$ 206,882**
Impact of master netting agreements	**(66,804)**	**(56,963)**	**(123,767)**
Replacement cost (after master netting agreements) – 2008	**$ 28,085**	**$ 55,030**	**$ 83,115**
Replacement cost (after master netting agreements) – 2007	$ 180,520	$ 56,378	$ 236,898
Number of counterparties			
March 31, 2008	**10**	**3**	**13**
March 31, 2007	5	2	7

Interest Rate Sensitivity 18

Interest rate risk occurs when a liability is settled or repriced at a time in the future that does not offset the asset that it is funding. BDC uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

The following table summarizes BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. The effective yield represents the weighted average effective yield based on the earlier of contractual repricing and maturity date.

CANADIAN DOLLAR TRANSACTIONS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	TOTAL
Assets								
Cash and cash equivalents	$ (18,516)	$ 710,432	$ –	$ –	$ –	$ –	$ –	$ 691,916
Effective yield	3.25%	3.60%						
Securities	–	25,022	–	–	–	–	–	25,022
Effective yield		4.33%						
Loans, net of allowance for credit losses	6,629,481	171,698	352,728	1,811,558	732,467	293,447	(531,500)	9,459,879
Effective yield	7.79%	7.95%	8.22%	7.80%	7.23%			
Subordinate financing loans and investments	9,343	1,575	9,609	116,586	5,938	21,199	(8,784)	155,466
Effective yield(1)	12.58%	11.67%	12.16%	12.35%	12.90%			
Venture capital investments	–	–	–	–	–	317,582	–	317,582
Derivative assets	–	–	–	–	–	172,489	–	172,489
Other	–	–	–	–	–	286,506	–	286,506
	$ 6,620,308	$ 908,727	$ 362,337	$ 1,928,144	$ 738,405	$ 1,091,223	$(540,284)	$11,108,860
Liabilities and Shareholder's Equity								
Short-term notes	$ –	$ 4,232,892	$ 237,031	$ –	$ –	$ –	$ –	$ 4,469,923
Effective yield		3.24%	3.16%					
Long-term notes	–	6,000	155,865	329,998	800,825	1,109,757	–	2,402,445
Effective yield		3.51%	3.39%	4.63%	3.65%			
Derivative liabilities	–	–	–	–	–	37,190	–	37,190
Other	–	–	–	–	–	248,795	–	248,795
Shareholder's equity	–	–	–	–	–	1,867,317	–	1,867,317
	$ –	$ 4,238,892	$ 392,896	$ 329,998	$ 800,825	$ 3,263,059	$ –	$ 9,025,670
Total Balance Sheet gap 2008	$ 6,620,308	$(3,330,165)	$ (30,559)	$ 1,598,146	$ (62,420)	$ (2,171,836)	$(540,284)	$ 2,083,190
Total Balance Sheet gap 2007	$ 6,390,478	$ (1,214,882)	$ (283,229)	$ 1,375,072	$ 99,095	$ (2,862,994)	$ (507,181)	$ 2,996,359
Total Derivatives Position	$ –	$(1,816,832)	$ 216,209	$ 5,000	$ 599,477	$ 996,146	$ –	$ –
Total Gap Position 2008	$ 6,620,308	$(5,146,997)	$ 185,650	$ 1,603,146	$ 537,057	$ (1,175,690)	$(540,284)	$ 2,083,190
Total Gap position 2007	$ 6,260,478	$ (3,468,087)	$ (399,250)	$ 1,629,878	$ 653,604	$ (1,173,083)	$ (507,181)	$ 2,996,359

(1) Excludes non-interest return.

18 – Interest Rate Sensitivity (continued)

FOREIGN CURRENCY TRANSACTIONS EXPRESSED IN CANADIAN DOLLARS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	TOTAL
Assets								
Cash and cash equivalents	$ 3,148	$ 30,312	$ –	$ –	$ –	$ –	$ –	$ 33,460
Effective yield	1.50%	2.68%						
Securities	–	66,188	–	–	–	–	–	66,188
Effective yield		4.82%						
Loans, net of allowance for credit losses	22,735	–	–	–	–	–	(1,165)	21,570
Effective yield	5.90%							
Subordinate financing loans and investments	692	–	–	–	–	–	–	692
Effective yield[1]	7.20%							
Venture capital investments	–	–	–	–	–	158,403	–	158,403
Derivative assets	–	–	–	–	–	34,393	–	34,393
Other	–	–	–	–	–	–	–	–
	$ 26,575	$ 96,500	$ –	$ –	$ –	$ 192,796	$ (1,165)	$ 314,706
Liabilities and Shareholder's Equity								
Short-term notes	$ –	$ 727,668	$ –	$ –	$ –	$ –	$ –	$ 727,668
Effective yield		3.38%						
Long-term notes	–	394,613	808,205	10,300	104,123	68,372	–	1,385,613
Effective yield		3.39%	3.40%	3.33%	3.39%			
Derivative liabilities	–	–	–	–	–	284,615	–	284,615
Other	–	–	–	–	–	–	–	–
Shareholder's equity	–	–	–	–	–	–	–	–
	$ –	$ 1,122,281	$ 808,205	$ 10,300	$ 104,123	$ 352,987	$ –	$ 2,397,896
Total Balance Sheet gap 2008	**$ 26,575**	**$ (1,025,781)**	**$ (808,205)**	**$ (10,300)**	**$ (104,123)**	**$ (160,191)**	**$ (1,165)**	**$ (2,083,190)**
Total Balance Sheet gap 2007	$ –	$ (899,169)	$ (278,062)	$ (70,531)	$ (1,669,667)	$ (78,930)	$ –	$ (2,996,359)
Total Derivatives position	**$ –**	**$ (1,187,272)**	**$ 962,057**	**$ 12,108**	**$ 108,969**	**$ 104,138**	**$ –**	**$ –**
Total Gap position 2008	**$ 26,575**	**$ (2,213,053)**	**$ 153,852**	**$ 1,808**	**$ 4,846**	**$ (56,053)**	**$ (1,165)**	**$ (2,083,190)**
Total Gap position 2007	$ –	$ (2,639,067)	$ (357,292)	$ –	$ –	$ –	$ –	$ (2,996,359)

(1) Excludes non-interest return.

TOTAL TRANSACTIONS EXPRESSED IN CANADIAN DOLLARS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	TOTAL
Total Gap position for Canadian dollar transactions	$6,620,308	$(5,146,997)	$ 185,650	$ 1,603,146	$ 537,057	$(1,175,690)	$ (540,284)	$ 2,083,190
Total Gap position for foreign currency transactions	26,575	(2,213,053)	153,852	1,808	4,846	(56,053)	(1,165)	(2,083,190)
Total Gap position 2008	**$6,646,883**	**$(7,360,050)**	**$ 339,502**	**$1,604,954**	**$ 541,903**	**$(1,231,743)**	**$ (541,449)**	**$ –**
Total Gap position 2007	$ 6,260,478	$ (6,107,154)	$ (756,542)	$ 1,629,878	$ 653,604	$ (1,173,083)	$ (507,181)	$ –

Guarantees, Contingent Liabilities and Commitments 19

GUARANTEES

The various guarantees and indemnifications that BDC provides to third parties are presented below.

Derivative Instruments

As part of its financing operations, BDC has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meets the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $2,170 ($12,106 in 2007) and is included in the Consolidated Balance Sheet under Other liabilities. Last year's figure is included in Derivative liabilities.

Indemnifications

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In many cases, there are no predetermined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities.

CONTINGENT LIABILITIES

In 2004, representatives of BDC pensioners launched a class action claiming damages from BDC for allegedly breaching its fiduciary duty. BDC has a meritorious response to these claims.

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

COMMITMENTS

Undisbursed amounts of authorized loans and subordinate financing investments are $969,190 at March 31, 2008. These commitments are for an average period of two months ($125,369 fixed rate; $843,821 floating rate). The effective interest rates on these commitments vary from 5.70% to 17.25%. These commitments include BDC's share of undisbursed amounts of authorized joint venture financings, which is approximately $17,499 at March 31, 2008. The undisbursed amounts of authorized venture capital investments were $147,672 at March 31, 2008.

Future minimum lease commitments under operating leases related to the rental of BDC premises are approximately as follows.

2009	$ 22,686
2010	20,887
2011	17,204
2012	14,342
2013	10,261
2014 and later	60,822
	$ 146,202

Pension and Other Employee Future Benefits 20

BDC offers defined benefit plans that provide pension, post-employment and post-retirement benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Post-retirement benefit plans include health, dental and life insurance coverage.

During fiscal 2007, BDC announced changes to the post-retirement benefit program that will be effective for eligible employees who retire on or after January 1, 2012. The new post-retirement benefits program provides for different provisions for health, dental and life insurance coverage. The gain of $9.7 million generated by this modification was first used to eliminate the unamortized transitional obligation in effect at July 1, 2006. The excess of the gain is being amortized over the expected average remaining service period up to the full eligibility date of the active members, which was estimated as five years from July 1, 2006.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements, BDC began funding the supplemental pension plans in 2006. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes was performed at December 31, 2006, for the registered pension plan and December 31, 2007, for the supplemental pension plans. The next funding valuations will be performed at December 31, 2007, for the registered pension plan and December 31, 2008, for the supplemental pension plans. Other benefit plans are unfunded.

For 2008, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans, were $34 million ($42 million in 2007).

A full discussion on how BDC's pension liability and expense are determined can be found in Note 2.

The following tables present, in aggregate, information on a calendar-year basis concerning the employee future benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans	
	2008	2007	**2008**	2007	**2008**	2007
Change in accrued benefit obligation						
Balance at beginning of year	**$ 582,960**	$ 549,087	**$ 55,193**	$ 47,300	**$ 113,423**	$ 121,420
Current service cost	**18,299**	18,469	**949**	886	**6,800**	4,711
Interest cost on benefit obligation	**31,099**	29,279	**2,897**	2,484	**6,043**	6,049
Employee contributions	**6,593**	3,842	**–**	–	**–**	–
Benefits paid	**(24,375)**	(23,548)	**(1,889)**	(1,738)	**(7,003)**	(5,395)
Past service gain	**–**	–	**–**	–	**–**	(9,726)
Actuarial loss (gain)	**(32,730)**	5,831	**839**	6,261	**4,464**	(3,636)
Balance at end of year	**581,846**	582,960	**57,989**	55,193	**123,727**	113,423
Change in fair value of plan assets						
Balance at beginning of year	**$ 589,914**	$ 531,714	**$ 15,187**	$ 2,744	**$ –**	$ –
Employee contributions	**6,593**	3,842	**–**	–	**–**	–
Employer contributions	**19,910**	25,980	**9,317**	13,985	**–**	–
Actual return (loss) on plan assets during the year	**14,807**	51,926	**(344)**	196	**–**	–
Benefits paid	**(24,375)**	(23,548)	**(1,889)**	(1,738)	**–**	–
Balance at end of year	**606,849**	589,914	**22,271**	15,187	**–**	–
Surplus (deficit) at end of year	**$ 25,003**	$ 6,954	**$ (35,718)**	$ (40,006)	**$ (123,727)**	$ (113,423)
Employer contributions after measurement date	**3,108**	5,708	**10,114**	9,317	**108**	133
Unamortized transitional obligation (asset)	**(6,721)**	(20,162)	**449**	1,349	**–**	–
Unamortized past service gain	**–**	–	**–**	–	**(5,456)**	(7,135)
Unamortized net actuarial loss	**94,454**	108,172	**19,247**	19,104	**27,051**	23,951
Accrued benefit asset (liability) at end of year[(1)]	**$ 115,844**	$ 100,672	**$ (5,908)**	$ (10,236)	**$ (102,024)**	$ (96,474)

(1) Net amount recognized in the Consolidated Balance Sheet as "Other assets" or "Other liabilities", as appropriate.

20 – Pension and Other Employee Future Benefits (continued)

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded.

	Supplemental pension plans		Other plans	
	2008	2007	2008	2007
Fair value of plan assets	$ 22,271	$ 15,187	$ –	$ –
Accrued benefit obligation	$ 57,989	$ 55,193	$ 123,727	$ 113,423

Pension and other post-retirement costs are included in Salaries and Benefits in Note 15 and are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2008	2007	2008	2007	2008	2007
Defined benefit costs						
Current service cost	$ 18,299	$ 18,469	$ 949	$ 886	$ 6,800	$ 4,711
Interest cost on benefit obligation	31,099	29,279	2,897	2,484	6,043	6,049
Actual (return) loss on plan assets	(14,807)	(51,926)	344	(196)	–	–
Past service gain	–	–	–	–	–	(9,726)
Actuarial (gain) loss on benefit obligation	(32,730)	5,831	839	6,261	4,464	(3,636)
Costs arising in the period	1,861	1,653	5,029	9,435	17,307	(2,602)
Difference between costs arising in the period and costs recognized in the period in respect of:						
Return (loss) on plan assets	(25,084)	14,486	(1,061)	(237)	–	–
Actuarial (gain) loss	38,802	2,769	918	(5,068)	(3,100)	4,958
Difference between amortization of past service (gain) and past service cost	–	–	–	–	(1,679)	7,135
Transitional obligation (asset)	(13,441)	(13,441)	900	(33)	–	1,381
Defined benefit cost for the year ended March 31	$ 2,138	$ 5,467	$ 5,786	$ 4,097	$ 12,528	$ 10,872

As at December 31, the fair value of assets in BDC's registered and supplemental pension plans was as follows.

Investment type	2008		2007	
Cash and short-term investments	$ 12,285	2.0%	$ 5,345	0.9%
Bonds	241,599	38.4%	218,318	36.1%
Common and preferred shares	362,937	57.6%	373,128	61.6%
Other assets less liabilities	12,299	2.0%	8,310	1.4%
Net assets available for benefits	$ 629,120	100.0%	$ 605,101	100.0%

20 – Pension and Other Employee Future Benefits (continued)

The significant actuarial assumptions adopted in measuring BDC's accrued benefit obligations and annual benefit cost (weighted averages) are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2008	2007	**2008**	2007	**2008**	2007
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.25%**	5.25%	**5.25%**	5.25%	**5.25%**	5.25%
Discount rate at end of year	**5.50%**	5.25%	**5.50%**	5.25%	**5.25% – 5.50%**	5.25%
Significant actuarial assumptions used to determine the accrued benefit cost						
Discount rate at beginning of year	**5.25%**	5.25%	**5.25%**	5.25%	**5.25%**	5.25%
Expected long-term rate of return on plan assets(1)	**6.75%**	7.00%	**3.38%**	3.50%	**–**	–

The average rate of compensation increase is expected to be inflation, which is assumed to be 2.50% (in 2007, 2.75%) plus 0.5% for productivity gains, plus an adjustment for merit and promotion.

(1) The expected long-term rate of return on plan assets is calculated using assets valued at fair value.

For measurement purposes, cost trends were assumed to be:

Medical costs related to drugs

- 10% in 2008, dropping by 0.67% each year to 6% in 2014 and subsequent years (10% in 2007, dropping by 0.67% each year to 6% in 2013 and subsequent years);

Other medical costs

- 5% in 2008, dropping by 1% each year to 3% in 2010 and subsequent years (5% in 2007, dropping by 1% each year to 3% in 2009 and subsequent years); and

Dental costs

- 6% in 2008, dropping by 1% each year to 4% in 2010 and subsequent years (6% in 2007, dropping by 1% each year to 4% in 2009 and subsequent years).

20 – Pension and Other Employee Future Benefits (continued)

SENSITIVITY OF ASSUMPTIONS

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefits cost is summarized in the table below.

	Registered pension plan	Supplemental pension plans	Other plans
Increase (decrease) in			
Expected rate of return on assets			
Impact of: 1% increase	(5,910)	(106)	–
1% decrease	5,910	106	–
Discount rate			
Impact of: 1% increase	(10,739)	(795)	(697)
1% decrease	17,822	962	976
Rate of compensation increase			
Impact of: 0.25% increase	1,101	25	54
0.25% decrease	(1,067)	(23)	(52)
Assumed overall health care cost trend rates			
Impact of: 1% increase	–	–	1,803
1% decrease	–	–	(1,375)
on the aggregate of the service and interest cost components of the post-retirement benefits other than pension cost for the period			
Assumed overall health care cost trend rates			
Impact of: 1% increase	–	–	16,104
1% decrease	–	–	(12,820)
on the post-retirement benefits other than pension accrued benefit obligation at March 31, 2008			

Related Party Transactions 21

As at March 31, 2008, BDC has $1 billion outstanding in short-term borrowings issued by Her Majesty in Right of Canada acting through the Minister of Finance (Canada), in accordance with the *Financial Administration Act* and the BDC Act, and is compliant with (i) BDC's borrowing plan, which has been approved by the Minister of Finance; and (ii) the *Master Loan Framework for Interim Funding from the Consolidated Revenue Fund to the Business Development Bank of Canada*, dated February 14, 2008. Effective April 21, 2008, BDC will borrow exclusively through the Department of Finance Canada.

BDC is related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

Comparative Financial Data 22

Certain comparative figures have been reclassified to conform to the presentation adopted in 2008.

CORPORATE GOVERNANCE

THE BOARD REPORTS ON CORPORATE GOVERNANCE

OUR RESPONSIBILITY IS *STEWARDSHIP.*

We ensure that BDC's activities are aligned with its statutory role and that it fulfills its public policy mandate in an effective, responsible and efficient way.

Except for the president and CEO, all members of the Board are independent of management. None, except the president, are BDC employees. None are public servants. All have first-hand knowledge of finance, business and entrepreneurship. Together, we have the balanced mix of skills and experience needed for our stewardship role.

Our central challenge is to manage the constant tension between BDC's mandate to support small business entrepreneurs – an inherently high-risk endeavour – and its obligation to be commercially viable.

PARLIAMENT: DIRECTION AND OVERSIGHT

Our principal guides are parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

Like other Crown corporations, BDC is subject to other laws, such as the *Federal Accountability Act*, the *Privacy Act*, the *Access to Information Act* and the *Official Languages Act*, as well as regulations.

Crown corporations are the most audited organizations in the public sector. The Auditor General, jointly with an external audit firm, audits BDC every year. At five-year intervals, the Auditor General does a special examination of BDC. This examination, also done jointly with a private sector audit firm, is a performance audit. It goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness. In January 2008, our most recent special examination began.

Every year, Parliament receives a summary of BDC's corporate plan and its annual report.

GOVERNMENT AND INDUSTRY

We consult Treasury Board of Canada, Secretariat, for guidance and expertise on public sector governance practices. We also look to private sector organizations for the best practices to emulate.

In 2005, the president of the Treasury Board released the *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians*. The review is part of the government's desire to reassert the role of Crown corporations as instruments of public policy and to improve the effectiveness of their governance frameworks. It lists 31 measures to do the following:

- clarify the relationship between ministers and Crown corporations;
- clarify the accountability regime of Crown corporations;
- make more transparent the appointment process for chairs, CEOs and directors;
- align the governance of Crown corporations with reforms in the private sector;

- strengthen the audit regimes of Crown corporations; and
- make more transparent the activities and operations of Crown corporations.

BDC meets or exceeds all of these measures.

Within the parameters set by Parliament and the government, our key tasks are to:
- approve BDC's strategic direction and corporate plan, and monitor progress;
- set performance targets and monitor progress;
- ensure that BDC is identifying and managing its risks;
- establish compensation policies, and review and approve management's succession plan (a task that includes approving the appointment of senior managers and evaluating their performance);
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure;
- oversee BDC's pension plans, and establish its fund policies and practices; and
- ensure the highest standards of corporate governance.

In fiscal 2008, we sought a new chair. We defined the role, identified the experience and skills required, and hired an executive search firm to find candidates. In August 2007, the government appointed John A. MacNaughton to the chair's role for four years. Mr. MacNaughton brings an impressive ensemble of financial sector skills and experience to BDC. Collectively, we have the range and depth of skills and expertise that stewardship of BDC requires.

In fiscal 2008, BDC made continued progress on its Internal Control Certification Project, the goal of which is to enhance controls to improve the quality of information reported in BDC's financial statements and related disclosures. The initiative, which is proceeding on schedule and will be completed at the end of fiscal 2009, puts BDC in a leadership position among Crown corporations.

We held BDC's first annual public meeting in Winnipeg in September 2007.

We have a Board Code of Conduct that incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, we all affirm that we have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, reflect current best practices. We disclose possible conflicts of interest, if any, through a declaration of conflict of interest.

We work very closely with senior managers but we also regularly meet in camera, without their presence.

Most of the work that comes before us is initially examined by one of our five committees. We codify each committee's mandate in written terms of reference and make them available to the public at www.bdc.ca. We regularly review and revise the membership of these committees to ensure they reflect members' strengths.

All committees are independent of management, with one exception: President Jean-René Halde is a member of the Credit/Investment and Risk Committee, which authorizes large transactions within certain limits. Members have appropriately high levels of financial literacy. In fiscal 2008 new members of the Board, following the enhanced orientation and continuous training policy, attended detailed briefings on many of BDC's specialized activities.

If a member of Parliament, senator or director exerts undue pressure in making a referral to a BDC employee, the BDC referral policy requires the employee to report this to management, which in turn informs the Board of Directors.

The Employee Code of Conduct, Ethics and Values affirms BDC's fundamental values: ethics, client connection, team spirit, accountability and work/life balance. The code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, trust, fairness, objectivity, integrity, and corporate and individual responsibility.

We keep current on best practices and review the code annually to improve our internal governance. The code includes the policy on personal trading for employees and the policy on disclosure of wrongdoing in the workplace.

OVERVIEW OF BDC BOARD COMMITTEES

For complete board committee terms of reference, please visit www.bdc.ca.

The following table outlines committee membership and meetings, and a sample of important issues in fiscal 2008.

Committee	Number of meetings	Members (March 31, 2008)	Sample of issues
Audit Committee	6	Chair: Stan Bracken-Horrocks Christiane Bergevin Eric Boyko Terry B. Grieve John Hyshka Thomas R. Spencer	Reviewed quarterly and yearly audited financial statements, including the annual report and management's discussion and analysis Oversaw external auditors' independence, annual plan and report Oversaw the commencement of special examination planning Oversaw the internal audit team's annual plan and reports Reviewed the disclosure policy Started raising awareness of international financial reporting standards Reviewed quarterly reports on the implementation of the internal control certification system
Credit/ Investment and Risk Committee	35	Chair: Terry B. Grieve Christiane Bergevin Stan Bracken-Horrocks Jean-René Halde	Reviewed limits in delegation of authorities Reviewed and approved 46 financing and venture capital investments Each quarter, reviewed performance and trends in the portfolios and discussed action plans, a task that included identifying and monitoring principal risks Reviewed insurance coverage Did comprehensive operational risk assessments by business line (Financing and Venture Capital) Benchmarked ERM policy against policies of other financial institutions
Governance and Nominating Committee	6	Chair: John A. MacNaughton Cynthia Bertolin Stan Bracken-Horrocks Andrina Lever Jean Martel Kelvin Ng	Led the process to recruit a new chair Identified, reviewed and approved board skills and competencies Led the search for five new directors

Committee	Number of meetings	Members (March 31, 2008)	Sample of issues
Human Resources Committee	5	Chair: Terry B. Grieve Cindy Chan Andrina Lever Kelvin Ng Rick Perkins	Reviewed the human resources strategic plan and related leadership development initiatives Reviewed BDC's succession plan Reviewed the venture capital incentive program Reviewed and recommended approval of payments under compensation programs, based on performance measures and objectives established for fiscal 2007 Reviewed the performance assessments of the senior management team and approved related compensation payments Recommended and reviewed the performance assessment for the president and chief executive officer, based on performance objectives established for fiscal 2007
Pension Funds Committee	3	Chair: Christiane Bergevin Cynthia Bertolin Cindy Chan John Hyshka Jean Martel Rick Perkins Observer: Frank Watters	Reviewed and approved BDC's investment policy Reviewed managers' performance Approved new investment managers

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE

Directors	Board meetings	Audit	Credit/Investment and Risk	Governance and Nominating	Human Resources	Pension Fund	Total meetings
Trevor Adey(1)	0/3	0/2			0/2		0/7
Christiane Bergevin	9/10	3/6	24/35			3/3	39/54
Cynthia Bertolin(2)	7/10			5/6		2/3	14/19
Eric Boyko(3)	5/5	3/3					8/8
Stan Bracken-Horrocks	9/10	6/6	34/35	6/6			55/57
Cindy Chan	9/10				5/5	3/3	17/18
Léandre Cormier(4)	5/5	3/3	11/15		3/3		22/26
Terry B. Grieve	10/10	6/6	35/35		5/5		56/56
John Hyshka	9/10	6/6				2/3	17/19
Leo Ledohowski(5)	7/9		27/31		4/5		38/45
Andrina Lever(6)	9/10			6/6	5/5		20/21
John A. MacNaughton(7)	4/5	*	*	3/3	*	*	7/8*
Jean Martel	8/10			5/6		2/3	15/19
Kelvin Ng(8)	8/10			3/6	3/5		14/21
Valerie Payn(9)	8/9			5/6	4/5		17/20
Rick Perkins(10)	1/1						1/1
Thomas R. Spencer(11)	1/1		1/1				2/2
Jean-René Halde	10/10		32/35				42/45

* Mr. MacNaughton, as chairman, attends Audit, Credit/Investment and Risk, Human Resources and Pension Fund committee meetings in an *ex officio* capacity.

(1) Left July 15, 2007
(2) Left April 21, 2008
(3) Started August 29, 2007
(4) Left August 29, 2007
(5) Left March 7, 2008
(6) Left April 11, 2008
(7) Started August 1, 2007
(8) Left April 21, 2007
(9) Left March 24, 2008
(10) Started March 24, 2008
(11) Started January 29, 2008

Directors' Compensation

	Annual retainer (paid on a pro-rata, quarterly basis)	Per diem (including day of travel)
Chairperson	$12,400	$485
Chairperson of a committee	$ 1,500	$485
Director	$ 6,200	$485

If the chairperson of the Board also chairs a committee, he does not receive the extra $1,500 annual retainer.

BOARD OF DIRECTORS

at March 31, 2008

CHRISTIANE BERGEVIN
President
SNC-Lavalin Capital Inc.
Montréal, Quebec

Christiane Bergevin joined the BDC Board of Directors in June 2005. Ms. Bergevin is a graduate of both McGill University and the Wharton School of Business. President of SNC-Lavalin Capital Inc. since 2001, she is recognized for her leadership in the field of finance in Canada and abroad. Over the past 20 years, she has been involved in structuring major financings for projects, acquisitions and partnerships in Canada as well as overseas. During her career, Ms. Bergevin has established strong ties with leading financial institutions and pension funds in Canada and abroad.

CYNTHIA BERTOLIN
President and Owner
Sunrope Consulting Services Ltd.
Edmonton, Alberta

Cynthia Bertolin, who joined the BDC Board of Directors in March 2002, is a consulting barrister to Aboriginal peoples, industry and governments on Aboriginal rights, policy and business development issues. Ms. Bertolin is a national jurist for the Progressive Aboriginal Relations Program at the Canadian Council for Aboriginal Business. She has served as vice chair of the National Aboriginal Economic Development Board and was the chairperson of Apeetogosan Métis Development Inc., an Aboriginal financial institution.

ERIC BOYKO
President
Stingray Digital Inc.
Montréal, Quebec

Eric Boyko joined the BDC Board of Directors in August 2007. He is the co-founder and president of Stingray Digital Inc., an international company dedicated to digital media. Previously, he founded and was president of eFundraising.com Corporation. Winner of the Top 40 Under 40 prize for 2006, he is a board member of the Montreal Development Program, the Young Presidents' Organization and the Montréal Economic Institute. Mr. Boyko is a graduate of McGill University. He has a specialization in accounting and became a certified general accountant in 1997.

BOARD OF DIRECTORS (continued)

at March 31, 2008

STAN BRACKEN-HORROCKS
President
SE Bracken-Horrocks Investments Ltd.
Vancouver, British Columbia

Stan Bracken-Horrocks, who joined the BDC Board of Directors in April 2005, is a retired partner at PricewaterhouseCoopers. A chartered accountant, he began at PricewaterhouseCoopers in 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is past president of the Institute of Chartered Accountants. He has served on a number of boards of directors and is currently on the board of the Vancouver Police Foundation.

CINDY CHAN
CEO
InfoSpec Systems Inc.
Richmond, British Columbia

Cindy Chan joined the BDC Board of Directors in August 2005. Ms. Chan is the co-founder and CEO of InfoSpec Systems Inc., a software development company that has been ranked one of the top 100 technology companies in British Columbia. Ms. Chan was named the 2003 Ethel Tibbits Business Woman of the Year and received the 2005 B.C. New Canadian Entrepreneur Award. She is actively involved in community services and charitable organizations, such as the Richmond Chamber of Commerce and the Canadian Cancer Society. She holds a BSc from Simon Fraser University.

TERRY B. GRIEVE
Saskatoon, Saskatchewan

Terry B. Grieve was appointed to the BDC Board of Directors in April 1996. Until December 2005, Mr. Grieve was a principal of Ventures West Management Inc., a private, professional venture capital management firm. He was also executive vice president of the Saskfund group of companies.

JEAN-RENÉ HALDE

President and Chief Executive Officer
BDC
Montréal, Quebec

Jean-René Halde joined BDC in 2005. He has more than 35 years of management experience and has, since 1979, held president and CEO positions in leading companies, including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. Throughout his career, Mr. Halde has been a board member of many organizations, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He sits on the boards of The Conference Board of Canada and the Montréal General Hospital Foundation. Mr. Halde has a BA from Collège Sainte-Marie, an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School. He is also a graduate of the École supérieure de régie d'entreprise of the Institute of Corporate Directors.

JOHN HYSHKA

Chief Financial Officer and
Chief Operating Officer
Phenomenome Discoveries Inc.
Saskatoon, Saskatchewan

John Hyshka became a member of the BDC Board of Directors in May 2005. As CFO and COO of Phenomenome Discoveries Inc., a Canadian biotechnology firm he co-founded, he has raised over $40 million in equity and debt financing for a number of start-ups and small technology companies. Previously, he was director of economic development for the Saskatoon Regional Economic Development Authority, responsible for the region's economic development programs and for promoting Saskatoon internationally. Mr. Hyshka was chair of the Saskatchewan Government Growth Fund from 2003 to 2008. He now sits on the board as past chair.

ANDRINA LEVER

President and CEO
Lever Enterprises
Toronto, Ontario

Andrina Lever joined the BDC Board of Directors in June 2005. Ms. Lever has extensive experience in small business development, international commercial development, trade and governance. She is involved with Asia-Pacific Economic Cooperation and her work has taken her to more than 50 countries. She has been a member of the Bar of England and Wales as a barrister since 1980 and of the Bar of Victoria, Australia, as a barrister and solicitor since 1981. In addition to BDC, Ms. Lever sits on the boards of several non-profit organizations, as well as on the board of governors of York University.

BOARD OF DIRECTORS (continued)

at March 31, 2008

JOHN A. MACNAUGHTON
Chairman of the Board
BDC
Toronto, Ontario

John A. MacNaughton joined the BDC Board of Directors in August 2007. He served from 1999 to 2005 as the founding president and CEO of the Canada Pension Plan Investment Board. Previously, he had spent 31 years with Nesbitt Burns Inc. and its predecessor companies, serving as president of Burns Fry and then Nesbitt Burns from 1989 to 1999. Mr. MacNaughton is the chairman of Canadian Trading and Quotation System Inc. and vice chairman of the University Health Network. He is a director of Nortel Networks Corporation and TransCanada Corporation, and a member of the Order of Canada.

JEAN MARTEL
Partner
Lavery, de Billy, LLP
Montréal, Quebec

Jean Martel joined the BDC Board of Directors in September 2006. He is a partner of Lavery, de Billy, a Quebec-based law firm where he has been practising securities, financial and regulatory law in Montréal since 1999. Mr. Martel has been a director of TSX Group or its predecessors since October 1999. He is a member of the finance and audit committee and the public venture market committee of TSX Group's board of directors. From 1995 to 1999, he was chairman, president and CEO of the Commission des valeurs mobilières du Québec. Previously, Mr. Martel served as Quebec's assistant deputy minister of finance. He sits on the board of directors of Market Regulation Services Inc. and the Office Franco-Québécois pour la Jeunesse, and many of their committees. He also chairs the independent review committee of the investment funds of the Barreau du Québec.

KELVIN NG
President
Ng North Inc.
Edmonton, Alberta

Kelvin Ng, who joined the BDC Board of Directors in April 2005, is president of Ng North Inc., a management consulting firm. He was a member of the Nunavut Legislative Assembly and served as deputy premier, minister of finance and chair of the Financial Management Board. Mr. Ng also served in the legislative assembly of N.W.T. and held numerous portfolios in the N.W.T. government. As well as serving in municipal politics, he has held positions in the private sector in chambers of commerce and in non-profit organizations. He has also received the Queen's Golden Jubilee Award.

RICK PERKINS

Vice President, Communications
and Corporate Responsibility
Nova Scotia Liquor Corporation
Halifax, Nova Scotia

Rick Perkins joined the BDC Board of Directors in March 2008. A marketing, communications and public affairs professional, he is the Nova Scotia Liquor Corporation's vice president, communications and corporate responsibility. Mr. Perkins is a co-founder of Genoa Management Inc., a Toronto-based capital markets counsel firm. He has worked with Newcourt Credit Group Inc., the Canadian Imperial Bank of Commerce, and the Government of Canada's departments of finance and foreign affairs. He is vice chair of the board of directors of the Nova Scotia Hearing and Speech Foundation.

THOMAS R. SPENCER

Toronto, Ontario

Thomas R. Spencer joined the BDC Board of Directors in January 2008. He is retired from TD Bank Financial Group, where he held various positions, including vice president, corporate and investment banking; vice president, merchant banking services; senior vice president, risk management policy group; executive vice president, risk management; and vice chair of risk management. He sits on the boards of The Data Group Income Fund, Kruger Inc. and Vismand Exploration Inc., and he is a member of the TD private equity investors advisory committee. He holds an MBA and a BA in Economics from York University.

SENIOR MANAGEMENT TEAM

Clockwise around the table, from front left:

JEAN-RENÉ HALDE
President
and Chief Executive Officer

Jean-René Halde joined BDC in June 2005. He has more than 35 years of management experience and has, since 1979, held president and CEO positions in leading companies, including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. Throughout his career, Mr. Halde has been a board member of many organizations, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He sits on the boards of The Conference Board of Canada and the Montréal General Hospital Foundation. Mr. Halde obtained a BA from Collège Sainte-Marie, an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School. He is also a graduate of the École supérieure de régie d'entreprise of the Institute of Corporate Directors.

EDMÉE MÉTIVIER
Executive Vice President,
Financing and Consulting

Edmée Métivier joined BDC in 2000. She is responsible for developing and implementing strategies to sustain the growth of BDC Financing, BDC Consulting and Aboriginal Banking. She also oversees BDC's credit risk management. Previously, she was with the Royal Bank, where she held a number of operational positions, including vice president, small and medium-sized enterprises. Ms. Métivier is a member of the Desautels Faculty of Management advisory board at McGill University, the McGill International Executive Institute advisory board and the Canadian Youth Business Foundation board of directors. She holds an MA in Practising Management from the University of Lancaster in England.

JACQUES SIMONEAU
Executive Vice President,
Investments

Jacques Simoneau joined BDC in April 2006. He is responsible for the venture capital and subordinate financing portfolios. Previously, Mr. Simoneau was CEO of Hydro Québec Capi-Tech Inc.; senior vice president, investments, at Fonds de solidarité FTQ; and CEO of Société Innovatech du sud du Québec. He is a director of Transat A.T. Inc., Sustainable Development Technology Canada, Canada's Venture Capital and Private Equity Association, and the Club de golf de la Vallée du Richelieu. He is a member of Quebec's Conseil de la science et de la technologie and the University of Montréal's Faculty of Medicine's advisory committee. Mr. Simoneau is a professional engineer. He holds an MSc from Université Laval and a PhD from Queen's University.

LOUISE PARADIS
Senior Vice President,
Legal Affairs and Corporate Secretary

Louise Paradis joined BDC in 2004. She provides legal support to all our business units and to the Board of Directors. She is also responsible for the development and implementation of strategies on records management. Previously, Ms. Paradis held managerial positions with Société Générale, the Canadian office of a major international bank, where she was responsible for legal affairs, human resources, the corporate secretariat and administration. She held the position of director of operations at Société Générale for two years. Ms. Paradis began her career at BDC as legal counsel. She holds an LLL from McGill University and is a member of the Barreau du Québec.

PAUL BURON
Executive Vice President
and Chief Financial Officer

Paul Buron joined BDC in October 2006. He is responsible for finance, systems and technology, treasury, and enterprise risk management. Mr. Buron has acquired broad experience through leadership roles in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he was senior vice president and chief financial officer. He holds a BBA from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

MICHEL BERGERON
Vice President,
Corporate Relations

Michel Bergeron joined BDC in 1999. He is responsible for strategic alliances, government relations, media relations, internal and external communications, and BDC branding. At BDC, Mr. Bergeron has held various field positions providing financing solutions to SMEs, as well as various corporate positions, such as director, corporate planning, and director, strategic and business solutions. Previously, Mr. Bergeron was an international trade economist with the Department of Finance and Industry Canada in Ottawa. A lawyer by profession, he holds an MA in International Relations.

MARY KARAMANOS
Senior Vice President,
Human Resources

Mary Karamanos, who joined BDC in 2002, is responsible for developing and implementing BDC's human resources strategy. She has more than 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine, U.S.A. She holds a BA in Industrial Relations from McGill University and the Certified Compensation Professional designation from World at Work. She is active in the community and supports a number of children's charities.

JÉRÔME NYCZ
Vice President,
Strategy and Planning

Jérôme Nycz joined BDC in 2002. He is responsible for BDC's corporate development, strategic planning framework and public policy. Mr. Nycz is also in charge of BDC's corporate and economic research and knowledge management. Before joining BDC, Mr. Nycz held various positions within the federal government, including senior economist and policy advisor for the Department of Finance, Industry Canada and the Department of National Defence. He has also worked in international relations at Export Development Canada and as an investment officer at the Canadian Consulate in Boston. Mr. Nycz is a member of the board of CIRANO and has an IMBA from Hartford University

FIVE-YEAR OPERATIONAL AND FINANCIAL SUMMARY

for the years ended March 31 ($ in thousands)

Operational Statistics	2008	2007	2006	2005	2004
BDC Financing					
Committed to clients as at March 31					
Amount	**$ 10,951,760**	$ 10,115,995	$ 9,515,927	$ 8,852,856	$ 8,166,092
Number of clients	**27,418**	26,643	25,497	24,048	22,423
Authorizations					
Amount	**$ 2,814,349**	$ 2,586,489	$ 2,462,032	$ 2,230,194	$ 2,034,452
Number	**8,921**	9,079	8,402	7,457	7,212
Acceptances*					
Amount	**$ 2,906,667**	$ 2,691,571	–	–	–
Number	**9,143**	9,394	–	–	–
BDC Subordinate Financing					
Committed to clients as at March 31					
Amount	**$ 171,991**	$ 168,725	$ 160,246	$ 161,290	$ 187,067
Number of clients	**341**	316	305	321	373
Authorizations					
Amount	**$ 47,410**	$ 53,572	$ 47,126	$ 36,394	$ 48,195
Number	**103**	112	104	66	56
Acceptances*					
Amount	**$ 48,660**	$ 58,407	–	–	–
Number	**107**	130	–	–	–
BDC Venture Capital					
Committed to clients as at March 31					
Amount	**$ 749,107**	$ 747,857	$ 654,876	$ 604,389	$ 490,736
Number of clients	**173**	192	193	202	170
Authorizations and acceptances					
Amount	**$ 130,484**	$ 150,733	$ 140,016	$ 143,119	$ 108,812
Number	**87**	71	83	80	70

Performance Indicators	2008	2007	2006	2005	2004
Client satisfaction level	**93%**	93%	92%	93%	91%
Employee engagement level	**76%**	80%	78%	74%	77%
Efficiency ratio**	**48.5%**	50.2%	48.9%	48.5%	48.7%
BDC Financing portfolio	**$ 10,014,114**	$ 9,128,145	$ 8,627,199	$ 7,917,828	$ 7,291,961
Return on common equity (ROE)	**4.7%**	8.5%	9.2%	9.7%	5.1%
BDC Consulting revenue	**$ 24,802**	$ 23,523	$ 21,570	$ 18,924	$ 20,006

* For reporting purposes, BDC Financing and Subordinate Financing data prior to fiscal 2007 are based on net authorizations.
** Includes both BDC Financing and BDC Subordinate Financing.

($ in thousands)

Financial Information	2008	2007	2006	2005	2004
Statement of Income and Comprehensive Income for the years ended March 31					
Net income (loss)					
Financing	**$ 160,878**	$ 167,992	$ 141,060	$ 163,700	$ 86,805
Subordinate Financing	**11,007**	7,945	13,682	8,818	5,750
Venture Capital	**(82,801)**	(33,604)	(12,779)	(56,143)	(30,299)
Consulting	**(4,521)**	(4,326)	(3,782)	(2,887)	(3,135)
Net income	**$ 84,563**	$ 138,007	$ 138,181	$ 113,488	$ 59,121
Other comprehensive income	**(301)**	–	–	–	–
Comprehensive income	**$ 84,262**	$ 138,007	$ 138,181	$ 113,488	$ 59,121
Balance Sheet as at March 31					
Loans, net of allowance for credit losses	**$ 9,481,449**	$ 8,622,646	$ 8,129,880	$ 7,445,861	$ 6,813,344
Subordinate financing loans and investments	**$ 156,158**	$ 148,290	$ 143,901	$ 136,977	$ 164,200
Venture capital investments	**$ 475,985**	$ 505,118	$ 431,379	$ 383,649	$ 345,624
Total assets	**$ 11,423,566**	$ 10,804,081	$ 10,311,423	$ 9,445,161	$ 8,809,218
Total shareholder's equity	**$ 1,867,317**	$ 1,807,718	$ 1,691,277	$ 1,569,569	$ 1,218,459
Total liabilities	**$ 9,556,249**	$ 8,996,363	$ 8,620,146	$ 7,875,592	$ 7,590,759

GLOSSARY

Acceptance
The point at which the client has accepted the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions, after client acceptance.)

Allowance for credit losses
Represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

Authorization
The point at which BDC has completed its due diligence and approved the client's request for financing. Authorization precedes the client's acceptance of the offered loan. (Information on authorizations disclosed in this report is net of cancellations or reductions, after BDC approval.)

Change in unrealized appreciation and depreciation of investments
Amount included in income resulting from movements in the fair value of investments for the period.

Consulting revenue
Fees from services provided by BDC's national network of consultants to assess, plan and implement results-driven, cost-effective management solutions.

Cross-currency swaps
Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-equity ratio
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the total shareholder's equity. It excludes other comprehensive income or losses, and accumulated other comprehensive income and losses. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments
Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct investments
Investments BDC makes directly in investee companies.

Efficiency ratio
A measure of the efficiency with which BDC incurs expenses to generate income on its financing and subordinate financing operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income (including realized gains and losses on subordinate financing investments). A lower ratio indicates improved efficiency.

Fair value
The price that knowledgeable, willing parties – under no compulsion to act – would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the balance sheet date and may not reflect the ultimate realizable value upon disposal of the investment.

General allowance
Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the balance sheet date but have not yet been specifically identified on an individual loan basis.

Hedging
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired loans
Loans where, in management's opinion, credit quality has deteriorated so much that there is no longer reasonable assurance that BDC can collect the full amount of principal and interest on time.

Interest rate swaps
Agreements to exchange streams of interest payments – typically, one at a floating rate and the other at a fixed rate – over a specified period, based on notional principal amounts.

Master netting agreement
A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts related to sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net interest and other income
The difference between what is earned on financing and subordinate financing portfolio assets and securities, and what is paid on borrowings, excluding the change in unrealized appreciation or depreciation of subordinate financing investments. This figure also includes realized gains and losses on subordinate financing investments.

Net margin
Net interest and other income from the financing portfolio, expressed as a percentage of the total average financing portfolio.

Performing portfolio
Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for credit losses
A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Realized net gains and losses on investments
Gains realized, net of realized capital losses, upon sale or disposition of investments, excluding the change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Return on common equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or losses, and accumulated other comprehensive income or losses.

Specific allowance
An allowance that management establishes to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the balance sheet date.

Start-up
A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

Subordinate financing
A hybrid instrument that brings together some features of both debt financing and equity financing.

Subordinate financing investments
The portfolio of subordinate financing BDC holds through its joint ventures with the Caisse de dépôt et placement du Québec, AlterInvest L.P., AlterInvest II Fund L.P. and AlterInvest Inc.

Variable interest entity (VIE)
An entity that does not have sufficient equity at risk to finance its activities without additional subordinate financial support, or an entity in which the holders of the equity at risk lack the characteristics of a controlling financial interest.

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Ce document est aussi disponible en français.

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ENTREPRENEURS FIRST

ANNUAL REPORT 200[illegible]

BDC

“WE’RE GOING TO BEAT THIS RECESSION.

I KNOW I CAN COUNT ON BDC.”

Christine Lundahl
Chief Operating Officer
Dahlson Industries Ltd.
Calgary, Alberta

Canada

THERE ARE MORE THAN **ONE MILLION EMPLOYER** BUSINESSES IN CANADA

97.5%

ARE SMALL

2.2%

ARE MEDIUM-SIZED

0.3%

ARE LARGE

ENTREPRENEURS ARE UP AGAINST A TOUGH ECONOMY.

WE'RE PUSHING HARD TO HELP THEM.

Loans Outstanding - BDC Financing


WHY?
BECAUSE CANADA'S ECONOMY
NEEDS ENTREPRENEURS TO SUCCEED,
AND WE EXIST TO SUPPORT THEM.

WE MAKE A DIFFERENCE FOR OUR CLIENTS

Performance

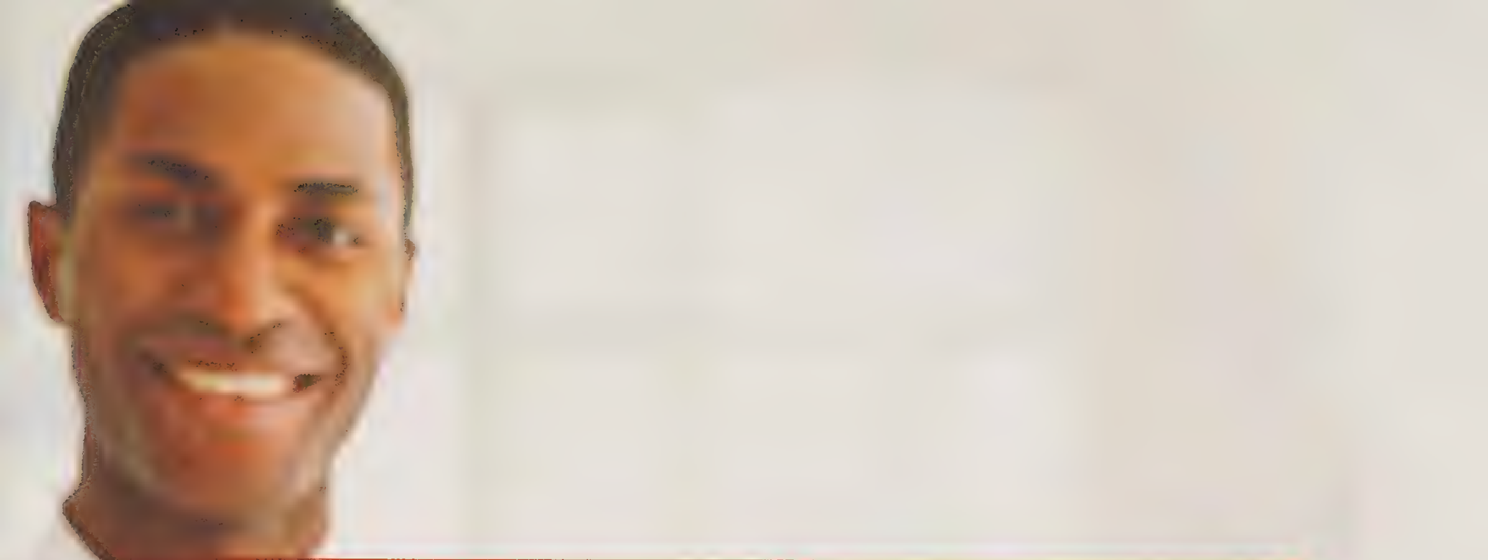
Statistics Canada, in a study that compared BDC clients with non-BDC clients, found that:

> BDC clients outperform non-BDC clients in terms of revenue and employment growth

> BDC clients survive longer than non-BDC clients

Survival

BDC sticks with its clients, even when the going gets tough. After two years, over 95% of BDC-financed start-up firms survive, compared with 50% for Canadian start-ups in general.



WHO HAVE A POSITIVE IMPACT **ON CANADA'S ECONOMY**

Impact

> BDC supports 28,000 Canadian small and medium-sized enterprises.

> BDC's financing and investment commitments to these companies total $13.2 billion. That includes $3.1 billion in additional authorizations in fiscal 2009.

> Our clients generate an estimated $160 billion in sales, including about $22 billion in export sales.

> Our venture capital clients are turning knowledge into economic opportunity: they employ more than 5,000 people and generate more than $700 million a year in revenues.

"BDC: Serving entrepreneurs in a time of need."

Entrepreneurs had trouble obtaining credit at precisely the time Canada's economy needed them to succeed. BDC's dedication and capabilities were more important than ever.

This past year was both sobering and galvanizing. Like everyone, we were dismayed by the speed and severity of the recession. But we were galvanized by a shared goal of helping entrepreneurs through the economic tumult.

Our entrepreneurs had a tough year. The credit crisis was akin to a drought: it suddenly became harder and more expensive for them to borrow the money they needed to create and grow companies. And while the relative good health of Canada's financial sector may have been the envy of entrepreneurs in many countries, it was shaken by the exit of many foreign banks and non-regulated financial institutions. The remaining financial institutions, BDC included, strained to meet greater demand at a time when risk levels had risen.

We faced a global economic slowdown: a time of greatly reduced international demand for Canadian commodities, products and services. Domestic demand also weakened.

Many companies struggled. For some, the primary concern was maintaining cash flow to stay alive. Those whose balance sheets permitted it scrambled to stay competitive.

As you will read in this report, BDC held firm in its support of entrepreneurs. Overall financial results were positive but, as might be expected in a recession, they were mixed.

Despite the market turbulence, BDC's portfolio grew by $1 billion. The Canadian venture capital market had another challenging year, and BDC's capacity to support fledgling high-tech client companies was constrained. Its portfolio suffered a loss of $106 million. And despite a fragmented consulting market, BDC's consulting revenues grew by 10.6%.

The government showed confidence in BDC by increasing its capital base, requesting that it play a key role in the Business Credit Availability Program, and relying on it to establish and manage the Canadian Secured Credit Facility. Our management and employees spent the latter part of fiscal 2009 with sleeves rolled up, designing and implementing these initiatives. The results will be evident in fiscal 2010.

Given the speed at which events are unfolding, it is also quite possible that the results of other, yet-to-be-decided initiatives targeting challenges such as high-risk financing and venture capital will become apparent in the months ahead.

As directors, our duty is to oversee BDC to ensure that it does what Parliament created it to do: promote entrepreneurship, with a special focus on small and medium-sized enterprises.

We commit to ensuring that governance at BDC rivals the best governance in both the public and private sectors.

Tumultuous times make stewardship more important than ever. Our overriding concern has been the need to ensure BDC has the people, money and expertise it needs to assume responsibility for the new, complex and risky tasks that the government has assigned it. We are confident it does and pleased to meet our shareholder's desire for BDC to play a greater role. For details on what our stewardship entails, please see page 86.

I would like to acknowledge the contribution of board colleagues who have completed their terms: Cindy Chan and John Hyshka. A special thank you to Terry B. Grieve for his many years of dedicated service.

I would like to welcome those board members who joined us this past year: Brian Hayward, Henry K.S. Lee and Prashant Pathak. They join a team that is honoured to serve on BDC's board.

Thank you as well to BDC's management team and employees. They have earned our gratitude and shown themselves capable of tackling the challenges ahead.

John A. MacNaughton
Chairman

“BDC’s motto has never been more urgent: *Entrepreneurs first.*”

ENTREPRENEURS FIRST

If there is one thing that is going to help us exit these economic doldrums, it is people who create and grow businesses, hire workers and harness innovation. BDC's motto has never been more urgent: *Entrepreneurs first*.

If they are essential even in good times, they are critically important when recession strikes. When they succeed, Canada takes a step closer to recovery.

The contribution of small and medium-sized businesses is anything but small: they employ over half of all Canadian workers. We estimate our 28,000 clients to have revenues of close to $160 billion.

We tailor our financing, consulting and venture capital services so that entrepreneurs can choose precisely what they need, when they need it. That means, for example, helping them to secure working capital, expand facilities, pursue global opportunities or champion a new technology despite a difficult venture capital market.

> This support is all the more important when credit is scarce. **We accept more risk than private sector lenders and offer more flexibility in repayment terms.**

EXTRAORDINARY TIMES, EXTRAORDINARY EFFORTS

Last year was unexpectedly calamitous: the worst financial crisis since the Great Depression and a severe recession. BDC was pleased to support the Government of Canada's economic recovery plan.

We received a substantial injection of new capital and are using it to provide additional financing to entrepreneurs.

We are participating in the new Business Credit Availability Program, in which we work in collaboration with Export Development Canada and private sector banks to collectively make available an estimated $5 billion to businesses through various initiatives. We got off to a fast start with this program, delivering close to $600 million to businesses thus far.

We have also been asked to create and manage the new Canadian Secured Credit Facility. Through it, we will invest up to $12 billion to help jumpstart the stalled auto and equipment loan and leasing markets. Concretely, this program will mean more Canadians will be able to finance the purchase of cars, trucks and equipment.

FINANCIAL RESULTS

Given the dismal state of the global economy, and the depth and severity of the recession in Canada, I am quite satisfied with the results we've achieved in the last fiscal year. In financing and subordinate financing, we had strong results thanks to significant portfolio growth, higher margins and gains on financial instruments. In consulting, we posted a small loss but a 35% improvement over last year. In venture capital, we had disappointing but unsurprising losses rooted in the weak, problem-plagued Canadian venture capital market.

Our total portfolio grew to $11.7 billion. Most of this, $11.1 billion, is in our financing group. It also includes $155 million in subordinate financing and $442 million in venture capital investments. Consulting revenue reached $27.4 million this year.

We had yet another year of financial sustainability. Net income was $90.6 million and our return on common equity was 4.7%. This net income included $88.7 million in net realized and unrealized gains on financial instruments, without which BDC would have been basically at the break-even level, reflecting the higher risk it has taken in accordance with its public policy mandate. There will be an annual dividend of $16.8 million for the Government of Canada. Since 1997, we have paid a total of $156.7 million in dividends.

TREMENDOUS CONTRIBUTIONS

I send deep, heartfelt thanks to everyone on BDC's board of directors. Much was asked of them in this past extraordinary year. They leapt to the task and went beyond the call of duty in providing steady, sharp counsel, prudent oversight and solid decisions.

I also want to thank and congratulate BDC's employees. They did an outstanding job in meeting the new demands placed on BDC. In a year that was anything but ordinary, their contribution clinched our success.

Jean-René Halde
President and Chief Executive Officer

AN EXCEPTIONAL YEAR

In the latter part of 2007, the implosion of the U.S. sub-prime mortgage market triggered a global liquidity crisis.

BDC was not directly affected because it had no exposure to non-bank asset-backed commercial paper or other securities related to the sub-prime market.

Since then, turmoil in financial markets has led to the deepest, broadest and most pervasive financial crisis in decades. Liquidity contracted sharply as risk aversion became widespread and sources of credit exited the market. The growing difficulty of raising capital, the increased cost of borrowing, and the related dampening of consumer and business confidence contributed to the global economic slowdown.

EXCEPTIONAL MEASURES

> Extended repayment terms to entrepreneurs who were suffering cash flow problems;

> $350 million in new capital to offer more loans and new, time-limited guarantees for lines of credit;

> the new Canadian Secured Credit Facility, which will have up to $12 billion to support the financing of vehicles and equipment for businesses and consumers; and

> the new Business Credit Availability Program, a collective effort in which we, Export Development Canada and private sector banks will participate to help provide up to $5 billion in loans and other forms of credit support to businesses.

MANAGEMENT'S DISCUSSION & ANALYSIS

FORWARD-LOOKING STATEMENTS

BDC regularly makes written and oral forward-looking statements in its annual report, in press releases and in other communications. These forward-looking statements include statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. These uncertainties give rise to the possibility that predictions, forecasts, projections and other elements of forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed. These factors include credit, market, operational and other risks identified and discussed in the risk management section; interest rate fluctuations; opportunities to complete successful divestitures of investments; and changes in accounting standards, policies and estimates.

1. ROLE & ACTIVITIES

1,800

EMPLOYEES

100

OFFICES ACROSS CANADA

4

BUSINESS LINES

1

MANDATE

SUPPORT CANADIAN ENTREPRENEURS

AN APPETITE FOR RISK

ENTREPRENEURS NEED PARTNERS WHO SHARE THEIR WILLINGNESS TO TAKE RISKS.

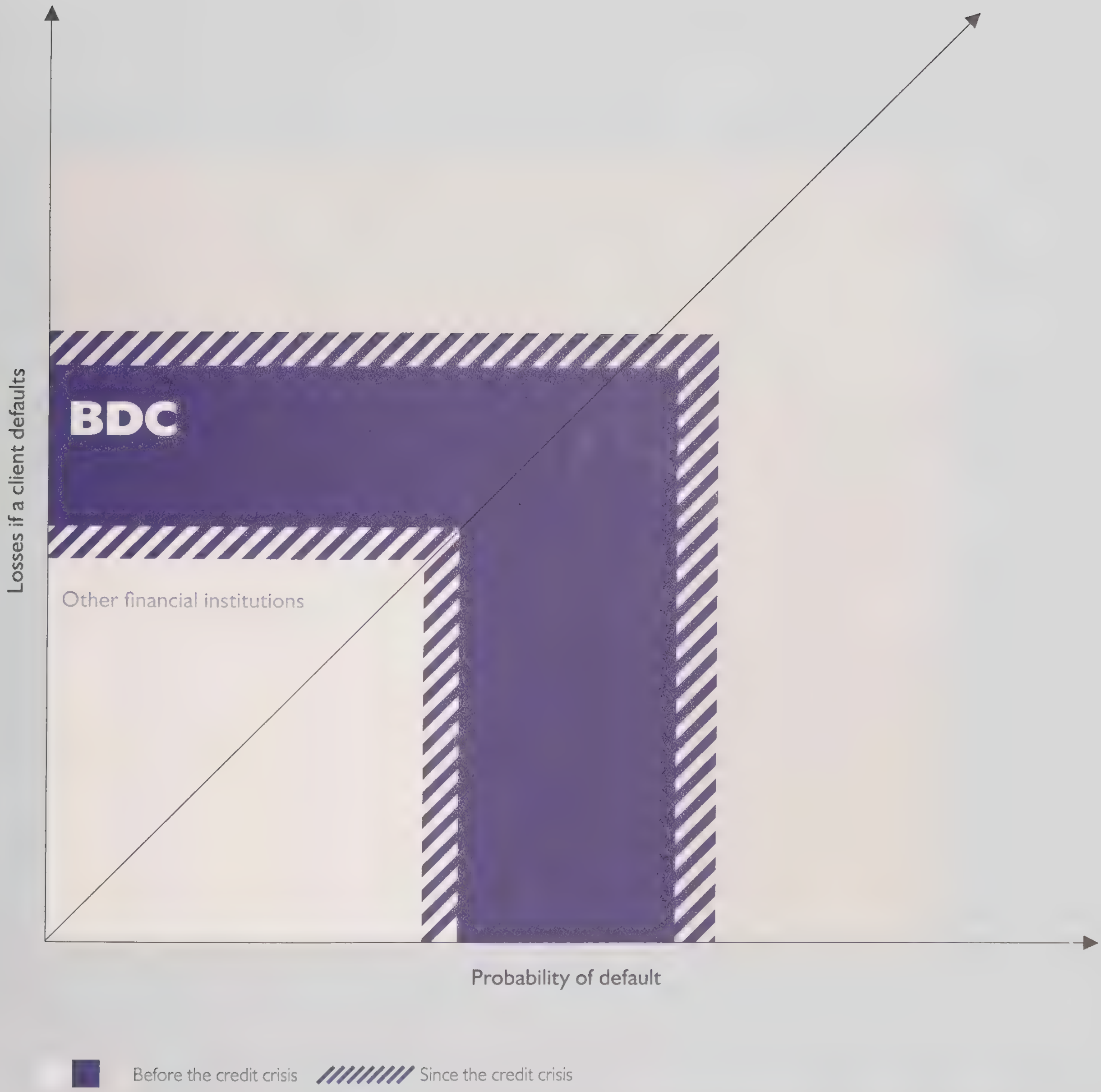
BDC SUPPORTS RISK.

CREDIT STABILITY

ENTREPRENEURS NEED PARTNERS THEY CAN COUNT ON IN TOUGH TIMES.

BDC IS PATIENT.

WE TAKE MORE RISK



As can be seen from this graph, BDC takes more risk than other financial institution

We Take More Risk

The adage "nothing ventured, nothing gained" omits an essential truth: ventures often need collective support. To start and grow their businesses, entrepreneurs often need loans and investments from others.

Private sector institutions are not always able to provide this financing. The greater the risk, the greater their reticence. The greater their reticence, the more likely that risky but creditworthy projects will wither. Because we provide financing under terms and conditions that complement those private sector banks offer, we support projects that are, in general, higher risk than the ones that they typically accept.

Our willingness to finance riskier projects and businesses is evident in our allowance for credit losses ratio, which is significantly higher than that of typical private sector banks.

"We're a fast-growing designer and manufacturer of oilfield equipment. When the slowdown came in the Alberta oilpatch, we got creative to protect our working capital, maintain revenues and find new markets. **We consider BDC a partner in our business and that's never been more true than during the slowdown.** They understand our business needs, both with financing and consulting, and have been there for us. **We're navigating through the recession. BDC is helping.**"

Christine Lundahl | Chief Operating Officer | **Dahlson Industries Ltd.**
Calgary, Alberta

"AngioChem is a clinical-stage biotechnology company that uses its patented EPiC technology to discover and develop innovative drugs for treating brain diseases. **BDC has been a valued partner since our founding and has provided us with much more than just venture capital.** Advice, professional contacts, strategic vision and support from BDC have been crucial to our company's progress and development. **When BDC is at the table, it means seriousness and professionalism.**"

Jean-Paul Castaigne | President and CEO | **AngioChem**
Montréal, Quebec

We provide support: financing, venture capital and consulting services, giving special consideration to the needs of small and medium-sized enterprises. This support is **complementary** to that provided by private sector financial institutions.

ROLE

In 1995, Parliament passed the *Business Development Bank of Canada Act*. The Act created BDC to promote entrepreneurship.

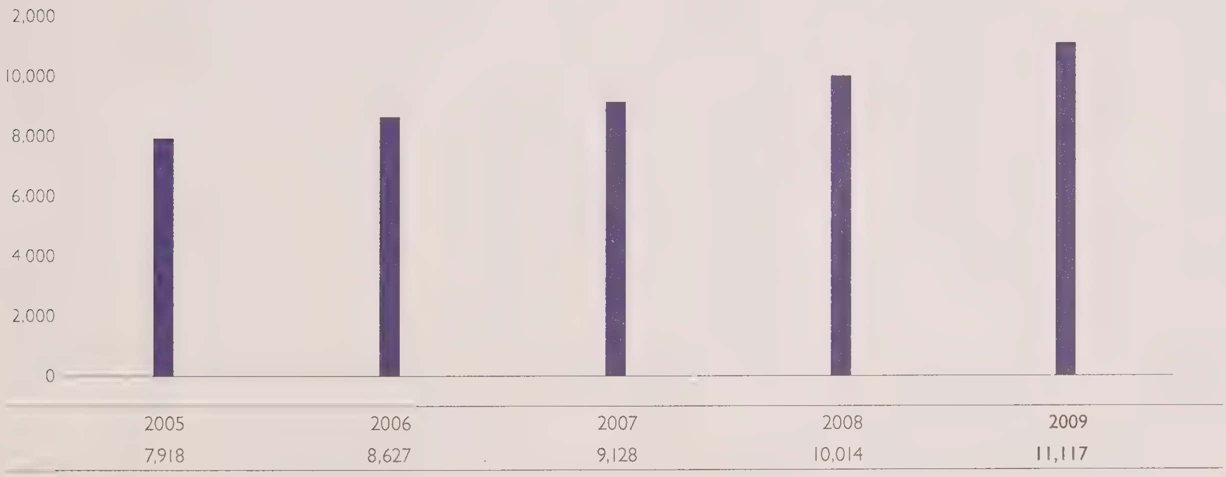
All Canadians benefit from the vibrant economy that entrepreneurs help to create when they succeed. For this reason, they merit support.

OUR ACTIVITIES

The services we offer to entrepreneurs determine our organizational structure: BDC Financing, BDC Subordinate Financing, BDC Venture Capital and BDC Consulting.

Loans Outstanding – BDC Financing
As at March 31 ($ in millions)

+11%



BDC has existed, under different names and with evolving public policy mandates, since 1944. To learn more, please visit www.bdc.ca.

WE CONTINUE TO SUPPORT ENTREPRENEURS.

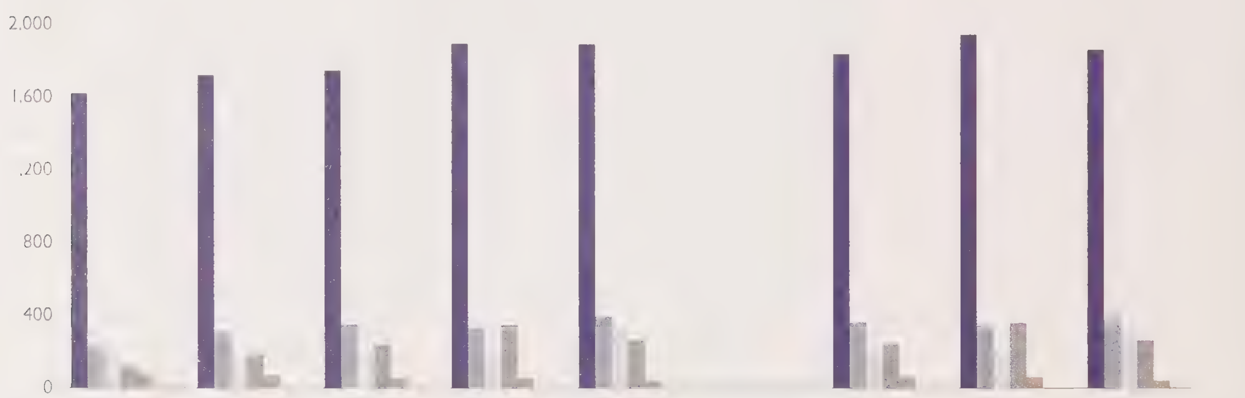
BDC Financing

for the years ended March 31

	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
Amount ($ in millions)	2,230	2,462	2,586	2,814	**2,918**	2,692	2,907	**2,832**
Average transaction size ($ in thousands)	299	293	285	315	**375**	287	318	**365**

BDC Financing, by Primary Loan Purpose

for the years ended March 31 ($ in millions)



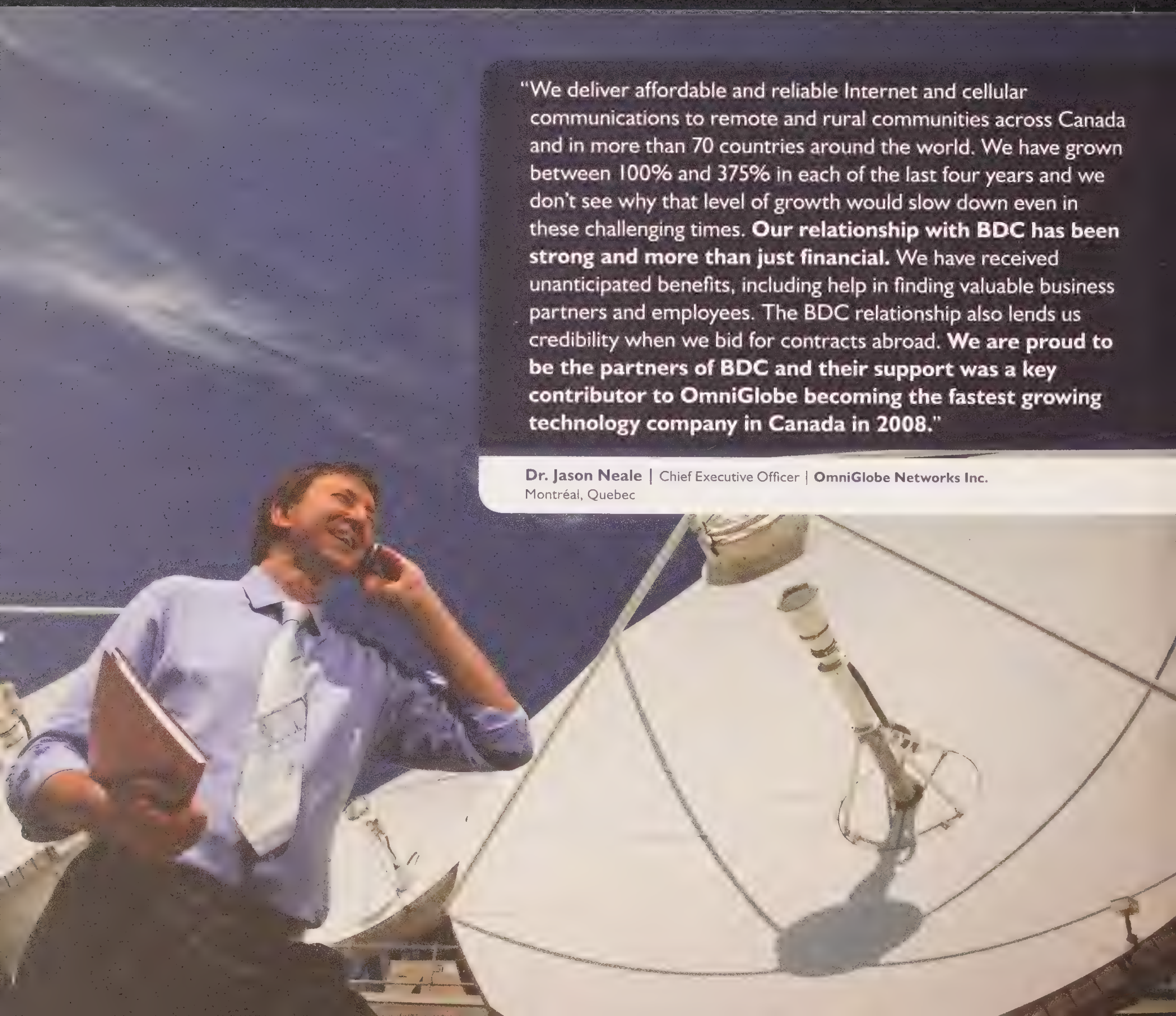
	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
Fixed assets	1,614	1,714	1,740	1,887	**1,882**	1,829	1,935	**1,852**
Refinancing	227	307	348	331	**392**	361	341	**373**
Working capital	195	184	199	196	**340**	201	213	**305**
Change of ownership	118	187	239	343	**263**	239	357	**260**
Other	76	70	60	57	**41**	62	61	**42**

* Clients accept financing after BDC authorizes it. There is sometimes a delay between the two. That explains why, in subsequent years, acceptances may exceed authorizations.

"A couple of years ago, our auto parts manufacturing company added engineering expertise that allowed us to develop proprietary technology and become a Tier 1 supplier directly to automakers. Although times are really tough right now, we've been awarded some very large new contracts.

BDC is proactive and responsive to our needs. They understand our business and the challenges we face. They have really stepped in to help us."

David Freedman | President and Chief Executive Officer | **Warren Industries Ltd.**
Concord, Ontario



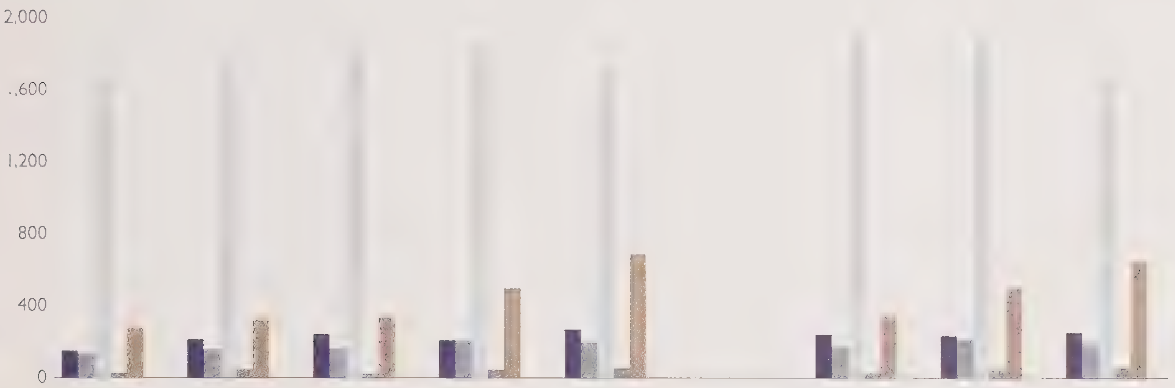
"We deliver affordable and reliable Internet and cellular communications to remote and rural communities across Canada and in more than 70 countries around the world. We have grown between 100% and 375% in each of the last four years and we don't see why that level of growth would slow down even in these challenging times. **Our relationship with BDC has been strong and more than just financial.** We have received unanticipated benefits, including help in finding valuable business partners and employees. The BDC relationship also lends us credibility when we bid for contracts abroad. **We are proud to be the partners of BDC and their support was a key contributor to OmniGlobe becoming the fastest growing technology company in Canada in 2008."**

Dr. Jason Neale | Chief Executive Officer | **OmniGlobe Networks Inc.**
Montréal, Quebec

WE SUPPORT ENTREPRENEURS AT EVERY STAGE OF THEIR BUSINESSES.

BDC Financing, by Stage of Development

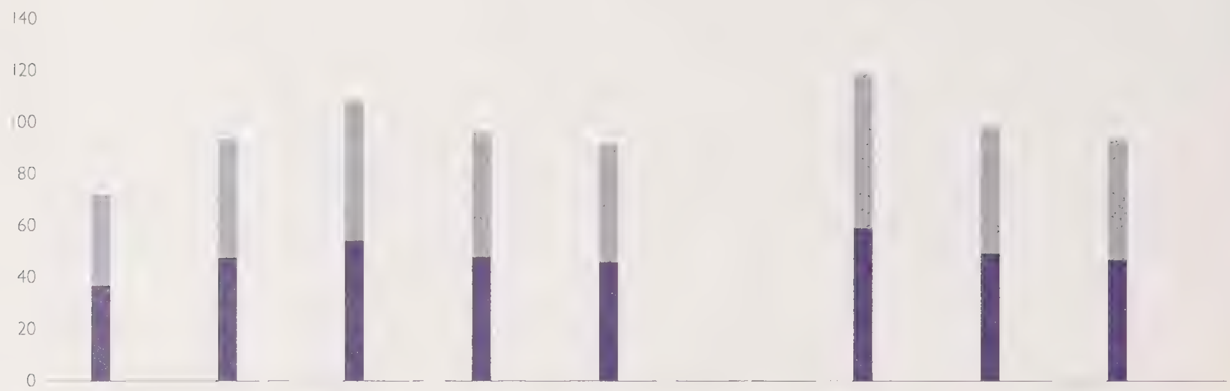
for the years ended March 31 ($ in millions)



	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
Start-up	149	213	242	209	**269**	242	234	**253**
Development	134	153	162	207	**197**	171	216	**197**
Expansion	1,644	1,731	1,821	1,857	**1,711**	1,906	1,913	**1,674**
Turnaround	27	46	24	45	**54**	27	46	**55**
Mature	276	319	337	496	**687**	346	498	**653**

BDC Subordinate Financing

for the years ended March 31 ($ in millions)



	Authorizations*					Acceptances*		
	2005	2006	2007	2008	**2009**	2007	2008	**2009**
BDC portion	36.4	47.1	53.6	47.4	**45.4**	58.4	48.7	**46.3**
Caisse portion	35.3	46.0	54.1	47.9	**45.4**	59.4	48.7	**46.3**
Total	71.7	93.1	107.7	95.3	**90.8**	117.8	97.4	**92.6**

* Clients accept financing after BDC authorizes it. There is sometimes a delay between the two. That explains why, in subsequent years, acceptances may exceed authorizations.

We support entrepreneurs who want to grow their businesses but who may lack collateral for a conventional loan.

For entrepreneurs who need working capital to grow but do not have the tangible security that conventional lenders require, or do not want to dilute their ownership of their firm, we offer hybrid financing of debt and equity: subordinate financing. We anchor this service in a partnership with the Caisse de dépôt et placement du Québec (the Caisse). This year, we received $92.6 million in acceptances (including the Caisse's portion).

We help entrepreneurs improve their management skills.

It takes skill and know-how to survive a recession. We continue to offer entrepreneurs tailored, high-quality consulting services at a price they can afford.

Our goal is to help them learn new skills and become more competitive. This year, we started 2,720 consulting mandates.

BDC Consulting Mandates

for the years ended March 31 (in numbers)

2005	2006	2007	2008	**2009**
1,886	2,037	2,451	2,770	**2,720**

"Our workforce in Atlantic Canada processes thousands of tonnes of fish from a large list of species for domestic and international markets. We've had a very successful long-term relationship with BDC and it goes on year after year, whether the economy is up or down or sideways. **BDC has an impressive group of people working for them and they're easy to work with. It's about open dialogue.** They want to not only support individual companies, but to do so in the context of successful regions and building a successful Canada. **They're pro-entrepreneur, pro-regions, pro-exporters and pro-Canada.** And they do it in the context of being a supportive yet diligent, responsible lender."

Bill Barry | President | **Barry Group Inc.**
Corner Brook, Newfoundland and Labrador

"As an Aboriginal company, we saw ISO quality management certification as a great third-party endorsement for our group and confirmation of our high level of corporate governance.

BDC Consulting helped us achieve the certification at the parent company, Tribal Councils Investment Group, and our two largest operating companies. **BDC had the experience and expertise we were looking for and they provided terrific service.**"

Allan McLeod | President and Chief Executive Officer | **Tribal Councils Investment Group of Manitoba Ltd.** | Winnipeg, Manitoba

We continue to help entrepreneurs commercialize R&D.

Canada needs entrepreneurs who can turn new ideas and technology into attractive products and successful companies. Venture capital support for these entrepreneurs is a vital public policy goal for our shareholder. Canada's venture capital industry is struggling to tackle several challenges. The global recession has exacerbated its difficulties, so our support is more important than ever.

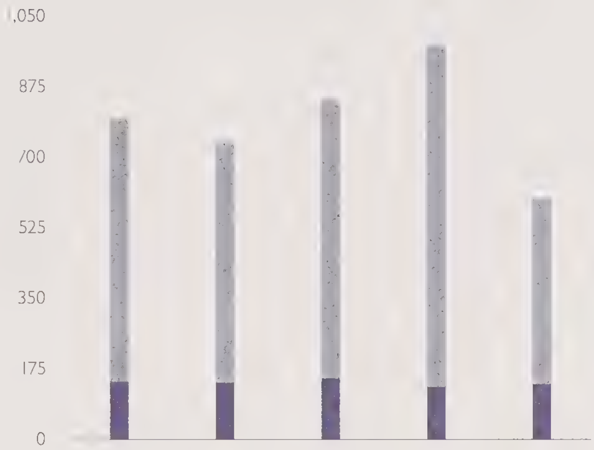
We are a leader in the critically important early-stage (including seed) investment phase. **This year, we made 58% of the dollar value of our direct investments in early-stage firms. The industry average is 44%.**

Over 39% of our direct venture capital portfolio companies originated and developed in universities and labs. These firms need BDC's expertise and long-term commitment.

This year, we authorized 54 direct investments totalling $64.1 million. We also authorized a $75-million investment in one late-stage fund.

Total Value of BDC Venture Capital Projects Financed

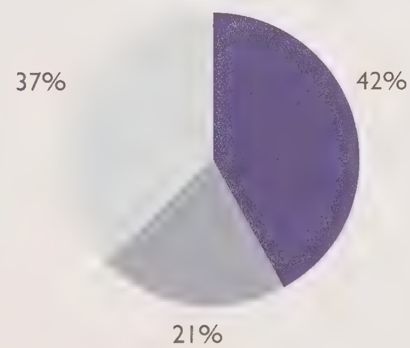
for the years ended March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
BDC Venture Capital authorizations	143	140	151	130	**137**
Other sources of investment	652	598	690	848	**462**
Total	795	738	841	978	**599**

BDC Venture Capital Direct Investments Authorized, by Stage of Development

for the year ended March 31, 2009 (percentage of dollar value)



- Start-up or seed
- Development
- Expansion

WE PROMOTE ENTREPRENEURSHIP

To reach entrepreneurs in a diverse society like Canada, it takes a diverse team. And an inclusive approach.

That enables us to meet the many aspiring and potential entrepreneurs across the country, whose needs vary from place to place. We use a grassroots approach, collaborating with local business associations, community groups and universities.

Rural: We have formal partnerships with more than 220 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. These partnerships enable us to reach entrepreneurs who live near these centres. Using this network, we supported more than 1,000 entrepreneurs in fiscal 2009.

Aboriginal: We help promote economic development using a grassroots approach called the Circle of Entrepreneurial Success. This strategy delivers management training, ongoing mentorship and loans of $5,000 to $20,000, with terms that vary depending on the cash flow of the project.

To stimulate awareness of entrepreneurship among Aboriginal youth, we offer E-Spirit, an Internet-based Aboriginal youth business plan competition. To date, about 4,300 students have participated in it, and some competitors have since graduated and are running businesses based on their plans. Last year, we held the E-Spirit awards ceremony in Regina.

Young Canadians and small businesses: Many young entrepreneurs find it hard to secure financing because they have little or no management experience and no proven track record. At 22 Entrepreneurship Centres across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2009, the centres granted $97 million worth of loans. Over the past five years, we have authorized over $700 million in financing to young entrepreneurs across Canada.

We celebrate the creativity and business success of young entrepreneurs with awards such as the Young Entrepreneur Awards, a key event during BDC Small Business Week™.

We use a variety of ways to foster an entrepreneurial spirit in Canadian youth. These aim to celebrate their creativity and provide practical support.

For high school students who are interested in developing their entrepreneurial skills, we support the Junior Achievement program.

We support Advancing Canadian Entrepreneurship (ACE), which helps stimulate an entrepreneurial mindset in colleges and universities; this support includes sponsorship of the Students In Free Enterprise (SIFE) program, which ACE organizes.

We support the Impact Entrepreneurship Group, a national student-run organization that is a catalyst for student [illegible] interested in entrepreneurship and leadership.

We support BDC Enterprize, a national competition in which university students from across the country submit business plans, competing in regional and national finals.

We sponsor the Vanier College – BDC Case Challenge, in which students from Ontario and Quebec vie for medals in a competition of entrepreneurial skills.

Finally, we support the Canadian Youth Business Foundation (CYBF), a national foundation that provides pre-launch coaching, business resources, start-up financing and mentoring for people between 18 and 34 who want to start businesses. We co-finance their business ventures.

CORPORATE SOCIAL RESPONSIBILITY

Acting responsibly is at the heart of our mandate. Through every client we serve, we fulfill our responsibility to Canadian society to support entrepreneurs.

We also operate responsibly. Our business, human resources and corporate governance practices are recognized as very good. You will see examples of our accolades throughout this report such as the Statistics Canada study that found that compared to their peers, our clients are more successful with regard to revenue and employment growth, and that they survive longer; our placement as a top contender in the 2009 Conference Board of Canada/Spencer Stuart National Awards in Governance; and our recognition as a Best Canadian Employer for New Canadians for the second year in a row.

But we can and intend to do more.

We have begun to formalize our commitment to corporate social responsibility (CSR). Our goal is to strategically, rigorously improve our performance to keep abreast of society's rising expectations of responsibility, particularly in relation to the environment. We group our impacts into three categories:

1) our impact on society;
2) our business practices; and
3) the workplace we create.

To help determine specific ways to improve, we have created a CSR Advisory Council. The 12 council members are from all regions of the country and all parts of BDC. Their mandate is to suggest ways to improve our policies, practices and reporting in the form of specific recommendations.

That is a long-term journey that will require effort and focus. We are committed to these efforts, as well as to publicly reporting on our progress.

We define CSR as more than compliance with law or charity. We define it as how companies make their profits. It goes beyond philanthropy and compliance to address the way organizations manage their economic, social and environmental impacts.

2. STRATEGY & KEY PERFORMANCE INDICATORS

WE MEASURE OUR PERFORMANCE AGAINST THE 2009-2013 CORPORATE PLAN.

Core values underpin our actions

BDC'S CORE VALUES

Ethics

Client connection

Team spirit

Accountability

Work/life balance

Our resources enable us to execute strategic actions

RESOURCES

Human Capital

Foster

> Business-minded, engaged and diverse workforce

> Culture of responsibility and collaboration

> Knowledgeable and trusted leadership

Intangible Capital

Develop and Leverage

> SME expertise and knowledge

> Partnerships and networks

> Meaningful client relationships

> Reputation and brand

Tangible Capital

Leverage

> Service network

> Productive portfolio

> Information infrastructure and channels

> Available capital

Strategic actions drive the key outcomes	Key outcomes ensure that we deliver shareholder value
STRATEGIC ACTIONS	**DESIRED KEY OUTCOMES**
Connecting With Our Clients	**Public Policy**
> Add value for clients > Support investment in strategic intangible assets > Differentiate through innovative and flexible solutions > Further our knowledge of SME needs	> Create and develop Canadian firms that can grow and compete successfully in changing global marketplaces > Inspire and support Canadian entrepreneurship
Agility and Management Excellence	**Client**
> Operate profitably > Improve efficiency > Embrace process and practice innovation > Continuously improve risk management and governance	> Create unique and valued relationships with Canadian entrepreneurs
Lead as a Development Bank	**Financial Sustainability**
> Help SMEs compete and grow in a global environment > Accelerate development of high-potential firms > Play a structuring role in developing a supportive environment for entrepreneurship	> Maintain sufficient profitability to fulfill development role in the long term

Our Key Performance Indicators

CLIENTS

Create a unique and valued relationship with Canadian entrepreneurs, so that we can support their business projects and accompany their growth (measured by client satisfaction).

EMPLOYEES

Foster a culture of engagement, learning and growth (measured by employee engagement).

EFFICIENCY

Maintain effective and efficient operating and administrative expenses as a percentage of net interest and other income (measured by the efficiency ratio).

FINANCIAL SUSTAINABILITY

Fulfill our mandate: be profitable to fund the growth of our portfolio, generate a return on common equity (ROE) at least equal to the government's average long-term cost of capital and be able to withstand unfavourable economic circumstances without requiring government funding.

CLIENTS

We want the hallmark of our activity in the marketplace to be patient, long-term, capacity-building relationships with entrepreneurs. We create and nurture these relationships in order to be able to offer entrepreneurs financing, investments and consulting to help them succeed.

Every year, we measure the degree to which our clients value their relationships with us. We hire an external firm to do a client satisfaction survey.

CLIENT SATISFACTION

F2007	F2008	F2009	**F2009**	F2010
Actual	Actual	Objective	**Actual**	Objective
93%	93%	91%	**92%**	88%

PERFORMANCE IN FISCAL 2009

In fiscal 2009, the overall client satisfaction rating remained high: 92%. We consider this an exceptional accomplishment, given the credit crisis and recession. It is 1 percentage point lower than last year, but 1 percentage point above our fiscal 2009 objective.

Of our new financing clients, 95% said they were satisfied with our service. This figure is the same as in fiscal 2008. These new clients were also 91% satisfied with BDC's quality of service, our employees' knowledge and expertise, our loans policies and our company image.

This year, we also asked our clients if they considered our financing products and services to be complementary to those offered by private sector financial institutions; 85% of new client respondents said yes.

OBJECTIVE FOR FISCAL 2010

Our client satisfaction objective for fiscal 2010 is 88%, a decrease of 3 percentage points from fiscal 2009's objective. The recession is proving deeper and more severe than first anticipated; entrepreneurs are navigating through anxiety-producing times. We expect they will become increasingly sensitive to price. These factors will likely have a dampening effect on our client satisfaction rating. We will continue to build and nurture our relationships with entrepreneurs.

EMPLOYEES

We recruit people whose skills, professional effectiveness and dedication to our mandate will ensure that our clients are well served. Once we have hired them, we work to engage, train and keep them.

To gauge the degree to which our employees are "engaged" in their work, we consider 1) what they say about BDC; 2) whether their job commitment makes them want to stay at BDC; and 3) how much discretionary effort they are willing to put into their work, in addition to what their role requires. This "engagement" is measured through an annual employee engagement survey done by an external firm.

EMPLOYEE ENGAGEMENT

F2007	F2008	F2009	**F2009**	F2010
Actual	Actual	Objective	**Actual**	Objective
80%	76%	80%	**75%**	75%–80%

PERFORMANCE IN FISCAL 2009

Our employee engagement score remained similar to last year and now stands at 75% (76% in fiscal 2008). That is below our objective of 80% but compares well with the most recent Best Employer's engagement score of 76%, which is also down 1 percentage point from the previous year. Management at all levels will continue to dialogue with employees to address those issues that hinder a higher engagement score and propose action plans to improve matters.

This past year, we were recognized as one of the Top 100 Employers in Canada for the third year in a row and Best Employers for New Canadians for the second year in a row. We view this third-party recognition as a helpful indicator of our success in creating an attractive workplace environment.

OBJECTIVE FOR FISCAL 2010

Our fiscal 2010 employee engagement objective is between 75% and 80%. Note that we are targeting a range rather than a precise point. We base this change on our observation of the high number of internal and external factors that can influence employee engagement. Exact targets belie the dynamic, complex and often unpredictable nature of the many factors that affect employee engagement.

EFFICIENCY

We strive to be as efficient as possible. To measure our efficiency, we use a ratio of expenses to income. Specifically, we use our financing and subordinate financing operating and administrative expenses as a percentage of their net interest and other income. Other income includes fee income and realized gains or losses on financial instruments from financing, and realized gains or losses on investments and other income from subordinate financing. When we spend fewer dollars to generate each dollar of revenue, we are more efficient. The lower the ratio, the greater the efficiency.

EFFICIENCY RATIO*

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
50.2%	48.0%	50.1%	**41.6%**	46.3%

* Excludes net unrealized gains or losses on financial instruments.

PERFORMANCE IN FISCAL 2009

The efficiency ratio in fiscal 2009 was significantly low: 41.6%. This is a 6.4 percentage point improvement from last year's result of 48.0% and 8.5 percentage points better than the corporate plan objective of 50.1%. This excellent result is primarily explained by higher net interest income resulting from the portfolio growth and higher margins achieved. In addition, operating and administrative expenses are $20.4 million lower than planned.

OBJECTIVE FOR FISCAL 2010

The efficiency ratio target for fiscal 2010 is 46.3%. That is a 3.8 percentage point improvement from the fiscal 2009 objective. In 2010, we expect an increase in pension expenses and a higher cost of resources in order to manage impaired loans and deploy the Business Credit Availability Program (see page 42).

FINANCIAL SUSTAINABILITY

OUTSTANDING BDC FINANCING PORTFOLIO

In fulfilling its public policy mandate, BDC must be profitable so that it can grow and invest in its services. The driving force of BDC's financial sustainability is its BDC Financing portfolio.

OUTSTANDING BDC FINANCING PORTFOLIO

($ in billions)

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
$9.1	$10.0	$10.4	**$11.1**	$12.3

PERFORMANCE IN FISCAL 2009

The gross closing portfolio rose from $10.0 billion to $11.1 billion. That was a significant increase of $1.1 billion, or 11.0% when compared with fiscal 2008. This result also exceeds the corporate plan objective by $0.7 billion.

The most important factor contributing to this growth was disbursements. We disbursed $2.8 billion in fiscal 2009, consistent with the fiscal 2008 level and the corporate plan objective—an excellent result, considering Canadian entrepreneurs were undertaking fewer investment projects due to adverse economic conditions. We were able to maintain our growth as we responded to mid-market businesses' needs and to new clients drawn to us due to the tightening supply of credit in the overall market.

This growth was also a result of lower payments resulting from BDC's extension of repayment terms to clients to increase their working capital, and lower prepayments due to lower liquidity in the markets.

OBJECTIVE FOR FISCAL 2010

The financing portfolio is expected to reach $12.3 billion at the end of fiscal 2010. That represents growth of 11% from the $11.1 billion achieved in fiscal 2009. Higher disbursement activity expected as a result of the Business Credit Availability Program and lower prepayments due to limited availability of credit from other financial institutions will foster growth despite difficult market conditions.

FINANCIAL SUSTAINABILITY

BDC CONSULTING REVENUES

BDC's consulting services differentiate us from our market peers. In general, business consulting services are expensive. We offer entrepreneurs a range of customized, quality consulting services at prices they can afford.

BDC CONSULTING REVENUE

($ in millions)

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
$23.5	$24.8	$26.0	**$27.4**	$24.0

PERFORMANCE IN FISCAL 2009

In fiscal 2009, consulting revenues rose 10.6% to $27.4 million. That is a record high for BDC Consulting and is $1.4 million higher than planned.

OBJECTIVE FOR FISCAL 2010

The fiscal 2010 revenue objective for BDC Consulting is $24.0 million, $2.0 million lower than the fiscal 2009 objective to reflect the economic slowdown.

FINANCIAL SUSTAINABILITY

RETURN ON COMMON EQUITY

BDC does not give grants or contributions and does not receive an annual appropriation from Parliament. To remain profitable to sustain growth, we aim to generate a return on common equity (ROE) that is at least equal to the government's average long-term cost of capital.

RETURN ON COMMON EQUITY

F2007 Actual	F2008 Actual	F2009 Objective	**F2009 Actual**	F2010 Objective
8.5%	4.7%	6.3%	**4.7%**	(8.1)%

PERFORMANCE IN FISCAL 2009

BDC's total ROE in fiscal 2009 was 4.7%, the same as last year's result but lower than the corporate plan objective of 6.3%. The shortfall in ROE compared to the plan is explained by the loss in BDC Venture Capital and higher provision for credit losses in BDC Financing. This was partly offset by important realized and unrealized gains on financial instruments. However, our ROE exceeded the government's average long-term cost of capital of 2.4% for the year.

OBJECTIVE FOR FISCAL 2010

In fiscal 2010, the ROE is expected to be negative 8.1% due to a projected net loss of $174 million as a result of difficult economic conditions. This expected net loss excludes the impact of the new Canadian Secured Credit Facility program (see page 43), which will be launched in fiscal 2010. Note that the ROE has been positive since 1995 and is expected to return to positive in future years.

DESIRED KEY OUTCOMES

Public Policy

1. Create and develop Canadian firms that can grow and compete successfully in changing global marketplaces.

In a 2009 study that compared BDC clients with non-BDC clients, Statistics Canada found that BDC clients:

> outperformed non-BDC clients in terms of revenue and employment growth; and

> survived longer than non-BDC clients.

Inspire and Support Canadian Entrepreneurship

2.

Small Business Week

> 28th consecutive year of nationwide activities to celebrate entrepreneurs

Opportunities to:

- > Meet other entrepreneurs
- > Share ideas
- > Learn through conferences, trade fairs, seminars and workshops
- > Participate in the Young Entrepreneur Awards

E-Spirit: 8th Annual E-Spirit National Aboriginal Youth Business Plan Competition

- > Mentorship, networking and business planning
- > 200 students from across Canada

BDC Enterprize

- > The largest nationwide university-level business plan competition in Canada
- > 97 student teams from across Canada

Impact Leadership Conference

- > 500 student leaders and young entrepreneurs from high schools, colleges and universities across Canada

3. RISK MANAGEMENT

We manage our risks by developing and communicating policies, establishing formal risk reviews and processes, and setting delegated authorities and limits

Risk is a defining, unavoidable feature of the financial sector. It is inherent in virtually all of our activities.

Risk is also a defining, unavoidable feature of entrepreneurial activity. And as our mandate leads us toward entrepreneurs' projects, we must master the identification and management of several kinds of risk—to the greatest degree possible—to succeed.

The cornerstone of our approach is a strong culture of risk management that emphasizes transparency and accountability. We have codified this culture in approved policies and procedures.

Our board of directors provides the necessary, independent oversight of BDC's exposure to risk. We are all responsible for the risks we assume in our operations.

ENTERPRISE RISK MANAGEMENT

In January 2009, the board reviewed and approved the updated enterprise risk management (ERM) policy. This policy codifies the integrated, enterprise-wide process by which we identify, manage and report risks. It also defines the roles and responsibilities of board members, managers and employees in upholding the policy.

PRINCIPLES OF ENTERPRISE RISK MANAGEMENT

1. Risk management is everyone's responsibility, from the board of directors to individual employees.
2. Risk is managed by balancing the trade-offs between risk and return.
3. Risk management is integrated into strategic, business and budget planning, and lending, investing and consulting decisions.
4. BDC's risks are assessed regularly.
5. The umbrella ERM policy codifies a comprehensive, disciplined and continuous process by which we identify, analyze, and accept or mitigate risks.
6. ERM policy is not static; it changes through annual reviews that align it with BDC's evolving practices and needs.
7. All of BDC's policies and processes are consistent with ERM, the umbrella policy for all other risk policies.
8. The board of directors establishes the maximum levels of risk that BDC will tolerate in pursuit of its mandate.

THE BOARD OF DIRECTORS AND ITS RISK-RELATED COMMITTEES

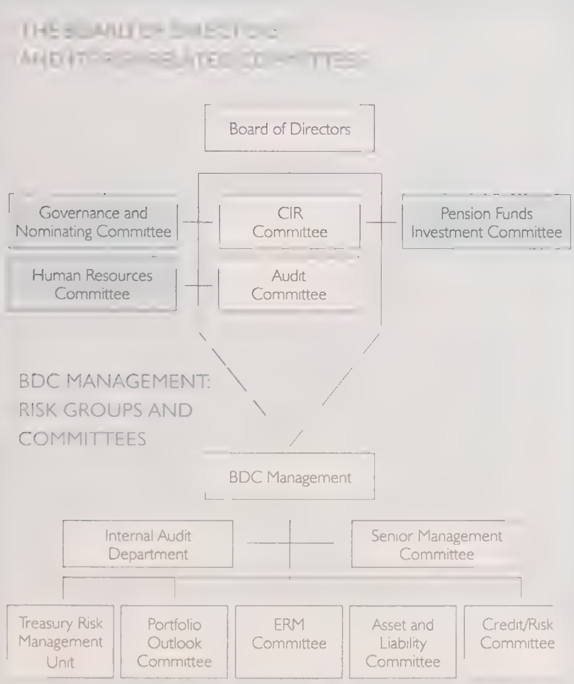
The board of directors and its five committees oversee risk management.

The board approves risk policies; risk appetite and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; and reviews capital adequacy and establishes clear levels of delegation of authority for committing BDC to various types of transactions.

Although all committees incorporate, as appropriate, considerations of risk into their deliberations, two are mandated with specific duties. These are the Credit/Investment and Risk Committee and the Audit Committee. (For full details on the board and its committees, please see page 85.)

The **Credit/Investment and Risk (CIR) Committee** advises the board to ensure that the principal risks of BDC's business are identified and effectively managed. It reviews reports on portfolio management, and recommends policies and guidelines regarding the delegation of authority to senior management.

The **Audit Committee** advises the board on the effectiveness of BDC's financial management of standards of integrity and conduct, internal control systems, and financial control and audit processes.



BDC MANAGEMENT: RISK GROUPS AND COMMITTEES

The **Internal Audit Department** promotes sound risk management practices and plans regular internal audits so they align with BDC's key risks. It reviews the way BDC is managing key risks, evaluates its reporting performance, and seeks assurance that risk management practices are present, appropriate and respected.

The **Senior Management Committee** is composed of the president and chief executive officer, the executive operating officers, the executive risk officer and designated vice presidents. It meets regularly to discuss emerging threats and opportunities. It also reviews the quarterly ERM reports.

The **Treasury Risk Management Unit** identifies, measures, monitors and reports financial risk exposures of treasury activities and ensures their compliance with the treasury risk policy, and policies of the board of directors and the minister of finance. It monitors the creditworthiness of counterparties to derivative transactions and their compliance with legal documentation standards. It also determines risk limits and develops risk measurement tools that adequately measure BDC's financial risk exposure in line with current industry and regulatory standards. Finally, it develops BDC's treasury risk management framework.

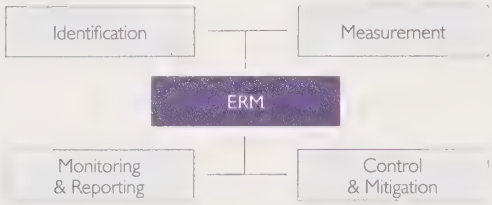
The **Portfolio Outlook Committee** comprises members from different parts of BDC, including field operations, market development, portfolio risk management and credit risk management. It reviews loan portfolio concentrations, risk migration, overall risk assessment and loan quality, and recommends actions. The committee also approves loans and investments that exceed the delegated authority of senior management, up to a limit set by the board.

Enterprise Risk Management (ERM) Committee members come from a cross-section of departments and disciplines. The committee identifies, assesses, and quantifies risks and opportunities in our day-to-day operations. Its mandate is to develop and oversee the implementation of action plans that involve more than one business unit. It also meets twice a year to consider the non-financial risks BDC is facing and to propose plans to mitigate or manage them.

The **Asset and Liability Committee** comprises the president and chief executive officer, the executive risk officer, executive operating officers and representatives from a cross-section of BDC's departments. It oversees treasury funding and compliance with treasury risk policy, including the matching of assets and liabilities.

The **Credit/Risk Committee** is a group of senior employees appointed by the president and chief executive officer. It scrutinizes large, high-risk credit decisions. Its principal responsibility is to adjudicate credit within prescribed limits; for larger transactions, it makes recommendations to the Credit/Investment and Risk Committee of the board.

ERM is a framework policy that ensures we are methodical and consistent in our decision making and operations. It precludes us from managing risk in an uncoordinated or piecemeal way.



IDENTIFICATION

We regularly review BDC's activities to identify significant risks. Senior managers informally discuss significant corporate risks at weekly meetings and, at least quarterly, in formal committees.

Every year, we identify, assess and prioritize risks at the corporate and functional unit level and present these to the board of directors. We also assess risks related to all significant projects, new products or services, and policy changes.

MEASUREMENT

We quantify risk for all of our businesses, products and services. The ERM team is responsible for developing and maintaining the tools to do so, as well as for supporting its colleagues on the operations team.

MONITORING AND REPORTING

We monitor activities affecting BDC's risk profile, material risk exposure, actual losses/loss events and corrective actions to reduce risk exposures.

We measure risk across our businesses, products and services to ensure they comply with our policies and limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance (every quarter, the board's Credit/Investment and Risk Committee receives a comprehensive summary of both).

CONTROL AND MITIGATION

We set risk tolerance objectives that are consistent with BDC objectives and strategies, and establish policies and guidelines that codify our governance and risk management culture.

The internal audit and the portfolio risk management teams each monitor and periodically test the effectiveness of our risk management policies, procedures and internal controls. Every quarter, they present the results of these reviews to the Audit Committee of the board.

CATEGORIES OF RISK

Credit risk is the risk of loss that arises either directly or indirectly from the possibility of a default by a borrower or investee, a counterparty with whom BDC does business, or an issuer of an asset.

Market risk is the risk that the value of assets, liabilities or other financial instruments will fluctuate because of changes in market prices.

Liquidity risk is the risk that BDC will be unable to honour all of its contractual debts as they become due.

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters.

Environmental risk is the risk of financial loss or damage to reputation caused by environmental issues. It is often embedded in other risks, such as credit or operational risk.

Reputational risk is the risk of revenue loss or criticism from stakeholders posed by real or perceived breaches in our ability to securely and responsibly conduct our business. It includes risks associated with the activities of our clients.

Legal and regulatory risk is the risk that failure to comply with laws, regulations, public sector guidelines, industry codes or ethical standards will have a negative impact on our business activities, earnings, regulatory relationships or reputation. Legal risk includes the effectiveness with which we prevent and handle litigation.

MANAGING FINANCIAL RISKS

In fiscal 2009, BDC adopted CICA Section 3862, *Financial Instruments – Disclosures*. This CICA section places increased emphasis on disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. Note 17 to the Consolidated Financial Statements, *Risk Management*, describes BDC's risk management policies and measurements for credit risk, market risk and liquidity risk.

Credit risk: The most important risk for BDC to manage is the credit risk derived from its commercial term lending—the largest part of BDC's portfolio.

It is at the branch level that we choose to take or avoid risk on individual transactions. All of our managers are trained to assess overall credit risk. We base our decisions on our experience with similar clients, and we use policies, procedures and risk assessment tools to help us make these decisions.

For further details on our management of credit risk, please see page 70.

Market risk: For details on our management of market risk, please see page 71.

Liquidity risk: For details on our management of liquidity risk, please see page 72.

MANAGING OPERATIONAL RISK

Operational risk arises from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters.

We have internal controls for systems and processes used in our business transactions. We also have comprehensive policies and procedures that govern the way we process information, administer loans, manage employees and carry out our activities. When we review our top risks, we include the action plans that govern operational risk.

We regularly review all of our accounts. For example, we review our written-off accounts to identify any operational risks associated with loan operations. By compiling these risks, we can modify our internal control procedures, if necessary.

We manage the risks associated with technology and telecommunications failures by replacing and upgrading our computer systems and equipment. We have security and control procedures to reflect laws and privacy standards, and to ensure our information is accurate and efficiently managed. These systems are regularly audited.

We have a comprehensive business recovery planning process to ensure the continuity of key business functions in case of disasters, such as pandemics. We regularly review and test this contingency plan, including ways we would prepare for and respond to a flu epidemic.

To mitigate operational risk, we also use internal controls, policies and procedures. We monitor these and subject them to internal audits.

MANAGING ENVIRONMENTAL RISK

Environmental risk is the risk of financial loss or damage to reputation caused by environmental issues. It is often embedded in other risks, such as credit or operational risk.

We have a well-defined process for identifying and evaluating environmental risk when we authorize a loan. Since 1991, our environmental risk policy has guided our decisions. And since 2006, we have also complied with the *Canadian Environmental Assessment Act*, to ensure we do not fund projects that might have a significant adverse impact on the environment.

We also have a monitoring process to ensure we continue to identify and appropriately manage environmental risk.

MANAGING REPUTATIONAL RISK

There are various ways in which BDC could suffer damage to its reputation by failing—or being perceived to fail—to meet the expectations of its stakeholders. We risk damaging our reputation if we

> use unethical practices;
> fail to deliver satisfactory standards of service quality;
> fail to meet legal and ethical standards, such as privacy laws, codes of conduct, environmental standards or good employment practices;
> commit operational failures, by using improper practices or breaching confidentiality, for example; or
> fail to meet the shareholder's expectation that we will support entrepreneurship.

Organizations representing entrepreneurs and small and medium-sized enterprises may criticize the effectiveness of BDC's activity in the marketplace. Other financial institutions may question the pertinence of BDC's role and presence in the market. Potential clients may criticize BDC's services as inadequate for their specific needs.

Reputational risk management is an integral part of our corporate risk policies, which include but are not limited to

> the BDC Employee Code of Conduct, Ethics and Values;
> the Charter of Client Rights;
> the enterprise risk management policy;
> the credit risk management policy;
> the venture capital policy;
> the policy on the handling of referrals and enquiries by members of Parliament, senators, ministerial staff and BDC directors.

At the corporate level, we also systematically track opinion leader and stakeholder interests, through dialogue and media monitoring.

At the operational level—that is, while carrying out transactions—we conduct screening and transaction due diligence before approving and underwriting projects. Our due diligence and approval process includes verifying that the potential client is not involved in money laundering or other corrupt activities, and ensuring that the potential client meets requirements related to transparency and disclosure, environmental performance, ethics, and credit eligibility. Broader decision-making responsibility rests with designated authorizing officers or authorizing committees.

MANAGING LEGAL AND REGULATORY RISK

The BDC Legal Affairs and Corporate Secretariat manages all litigation involving BDC and helps BDC employees comply with legal and regulatory requirements. It also maintains close ties to government departments—notably Treasury Board of Canada, Secretariat—as well as private sector organizations that help BDC learn about potential or imminent regulatory changes. Finally, it provides the board of directors with the information it needs to oversee BDC's management of its legal and regulatory risks.

4. ANALYSIS OF FINANCIAL RESULTS

This analysis compares our fiscal 2009 financial performance to fiscal 2008 results and 2009–2013 corporate plan objectives.

LINES OF BUSINESS

BDC reports on four business lines: BDC Financing, BDC Subordinate Financing, BDC Venture Capital and BDC Consulting.

AN UNEXPECTEDLY TOUGH ECONOMIC ENVIRONMENT

In the latter part of 2007, the implosion of the U.S. sub-prime mortgage market triggered a global liquidity crisis. BDC was not directly affected, as it had no exposure to non-bank asset-backed commercial paper or other securities related to the sub-prime market.

Since then, turmoil in financial markets has led to the deepest, broadest and most pervasive financial crisis in decades. Liquidity contracted sharply as risk aversion became widespread and sources of credit exited the market. The growing difficulty of raising capital, the increased cost of borrowing, and the related dampening of consumer and business confidence contributed to the global economic slowdown. In late 2008, Canada entered a recession.

Governments have responded with financial sector bailouts and massive stimulus packages. In late 2008 and early 2009, the federal government announced measures to increase BDC's capacity to help viable Canadian businesses:

- $350 million in capital for increased term financing and a new time-limited facility providing guarantees for lines of credit;
- an increase from $1.5 billion to $3.0 billion of BDC's authorized capital limit and the approval of a $1.8-billion increase in borrowing capacity to enable BDC to offer more financial services;
- the creation of a Canadian Secured Credit Facility (CSCF)—to be established and managed by BDC—with up to $12 billion to support the financing of vehicles and equipment for businesses and consumers; and
- the creation of the Business Credit Availability Program (BCAP), a collective effort through which BDC, Export Development Canada and private sector banks will collaborate to provide up to $5 billion in loans and other forms of credit support and enhancement to businesses (BDC is using its $350-million capital injection as a leverage base for delivering lending under the BCAP umbrella).

BDC reacted quickly to support entrepreneurs by extending repayment terms and implementing the new initiatives. As a result, the financing portfolio grew significantly during the year, increasing by over $1.1 billion or 11% when compared with fiscal 2008.

Notwithstanding these initiatives, the recession affected our results, as entrepreneurs put investment projects on hold and as credit risk increased in our financing portfolio. Furthermore, venture capital activities suffered further this year: exit opportunities were poor and industry capacity for investment diminished. Considering the extraordinarily difficult economic environment, our fiscal 2009 financial performance was relatively strong. We are well positioned for the challenges ahead.

CONSOLIDATED NET INCOME

Consolidated net income for fiscal 2009 was $90.6 million, compared with $84.6 million reported in fiscal 2008. Excluding the net realized and unrealized gains on financial instruments, fiscal 2009 consolidated net income was $1.9 million, a decrease of $88.0 million from the 2008 comparative figure. This decrease is mainly due to an increase in the provision for credit losses and higher losses in Venture Capital, reflecting the impact of difficult economic conditions on our financing and investment portfolios.

BDC Net Income

for the years ended March 31 ($ in millions)

	2009	2008	2007	2006	2005
Financing*	**104.3**	166.2	168.0	141.1	163.7
Subordinate Financing	**6.8**	11.0	7.9	13.7	8.8
Venture Capital	**(106.3)**	(82.8)	(33.6)	(12.8)	(56.1)
Consulting	**(2.9)**	(4.5)	(4.3)	(3.8)	(2.9)
Net income before net gains (losses) on financial instruments	**1.9**	89.9	138.0	138.2	113.5
Net gains (losses) on financial instruments	**88.7**	(5.3)	n/a	n/a	n/a
Net income	**90.6**	84.6	138.0	138.2	113.5

* Excludes net gains (losses) on financial instruments.

Income from BDC Financing was $104.3 million, a decrease of $61.9 million compared to last year. This decrease was due to (i) a higher provision for credit losses as a result of difficult economic conditions encountered in fiscal 2009, which was partially offset by (ii) higher net interest income due to a significant portfolio growth and higher achieved margins.

Income from BDC Subordinate Financing was $6.8 million. That was $4.2 million lower than last year but a solid performance, considering the economic downturn. BDC Venture Capital suffered again from extremely difficult market conditions and recorded a loss of $106.3 million. With record-high revenues, BDC Consulting reduced its loss to $2.9 million in fiscal 2009, a 35% improvement from last year.

PERFORMANCE AGAINST OBJECTIVE

Consolidated net income of $90.6 million in fiscal 2009 was $27 million lower than the corporate plan target.

First, BDC Financing recorded a provision for credit losses that was $100 million higher than the corporate plan target. This was partly offset by BDC Financing revenue that was $45 million higher than planned and operating and administrative expenses that were $19 million lower than planned. Second, BDC Venture Capital recorded a loss that was $81 million higher than anticipated. The net effect of all of these factors was a shortfall of $117 million in net income. This shortfall was largely offset by the $88.7 million in net realized and unrealized gains on financial instruments recorded in fiscal 2009. Result: actual consolidated net income was $27 million lower than planned.

BDC FINANCING

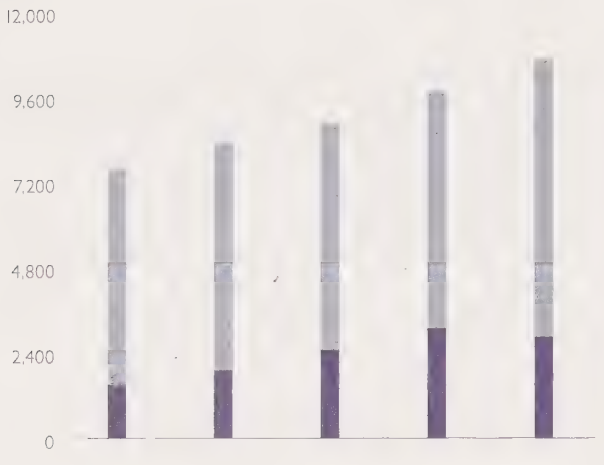
BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their businesses, develop and expand their markets, invest in intangible assets such as information technology, buy equipment, or transfer their companies to a new generation of owners.

FINANCING PORTFOLIO

BDC Financing's closing portfolio, before allowance for credit losses, rose from $10.0 billion to $11.1 billion in fiscal 2009. That was a significant increase of $1.1 billion, or 11.0% when compared to fiscal 2008. The most important factor contributing to this growth was disbursements. We disbursed $2.8 billion in fiscal 2009, consistent with the fiscal 2008 level—an excellent result, considering Canadian entrepreneurs were undertaking fewer investment projects due to adverse economic conditions. We were able to maintain our growth as we responded to mid-market businesses' needs and to new clients drawn to us due to the tightening supply of credit in the overall market. In addition, the payment and prepayment rate, at 15.6% of the opening outstanding portfolio, was 4.9 percentage points lower than the rate in fiscal 2008. That result was due to reduced liquidity in the market and to the fact that our clients availed themselves of repayment grace periods and extended terms, our initiatives to help them in these difficult economic conditions.

Performing Portfolio

as at March 31 ($ in millions)



	2005	2006	2007	2008	2009
Fixed rate portfolio	1,500	1,902	2,464	3,069	**2,824**
Floating rate portfolio	6,117	6,426	6,378	6,652	**7,777**
Total performing portfolio	7,617	8,328	8,842	9,721	**10,601**

The closing portfolio comprises $10.6 billion in performing loans and $0.5 billion in impaired loans. We borrow funds on the Canadian and global money markets and offer clients floating and fixed interest rates. Since April 2008, we have borrowed our funds from Her Majesty in Right of Canada, acting through the minister of finance. The rate we charge our clients takes into consideration the cost of funds, plus factors to cover operating expenses and the risk of each individual loan. As seen in the Performing Portfolio graph, a higher proportion of the performing portfolio in fiscal 2009—73.4%, compared with 68.4% in fiscal 2008—was composed of floating rate loans.

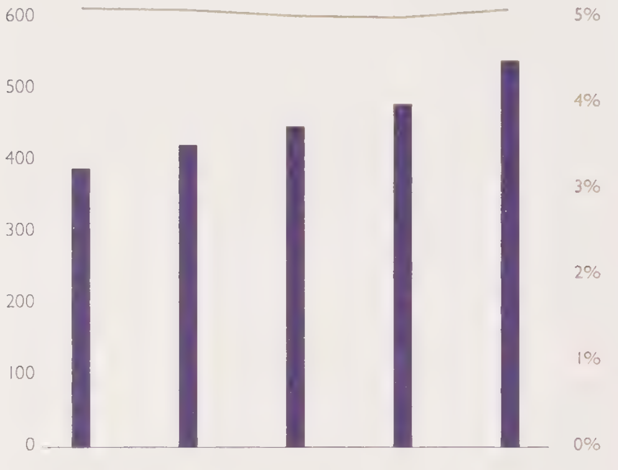
NET INTEREST INCOME

Net interest income of $540.1 million reflected interest income less interest expense on borrowings. It also included $17.9 million in interest earned on short-term investments and securities. That compared with $479.1 million of net interest income recorded in fiscal 2008. The increase of $61.0 million was the combined result of significant portfolio growth and higher achieved margins in fiscal 2009. Net interest income margin expressed as a percentage of the average portfolio increased by 9 basis points, due to lower funding costs resulting from a decline in interest rates due to the demand for securities issued by higher quality entities.

We also recorded fee income of $35.7 million from borrowers, which was $2.3 million higher than last year's result of $33.4 million.

BDC Financing Net Interest Income

for the years ended March 31 ($ in millions)



	2005	2006	2007	2008	2009
Net interest income	389.7	422.5	448.5	479.1	**540.1**
As a % of average loan portfolio	5.13%	5.11%	5.04%	5.02%	**5.11%**

PROVISION FOR CREDIT LOSSES

BDC Financing recorded a specific provision for credit losses of $198.7 million and a general provision of $24.1 million in fiscal 2009. The total provision for credit losses of $222.8 million represented 2.1% of the average loan portfolio, compared with 1.1% in fiscal 2008. In fiscal 2008, the total provision was $101.5 million, comprising a specific provision of $80.1 million and a general provision of $21.4 million.

The specific provision for credit losses recorded during the year was much higher than last year, primarily due to the recession. The most significant factor influencing the specific provision was the level of loans that were downgraded from performing to impaired. When loans default, we classify them as impaired and record an amount equal to the net exposure as a specific provision. Impaired loans represented 4.6% of the total portfolio at March 31,2009, compared with 2.9% in fiscal 2008. The downgrading rate increased from 3.1% of the performing opening portfolio to 4.8% in fiscal 2009, again as a result of difficult economic conditions. Exposures related primarily to the manufacturing sector, the tourism sector, and the transportation and storage sector. Ontario was the most affected region; its downgrading rate was 6.3%.

Specific Provision for Credit Losses

for the years ended March 31 ($ in millions)

	2005	2006	2007	2008	2009
Specific provision for credit losses	46.4	61.4	67.9	80.1	**198.7**
Average loan portfolio	7,595	8,275	8,902	9,552	**10,561**

Provision for Credit Losses

for the years ended March 31 ($ in millions)

	2005	2006	2007	2008	2009
Provision for credit losses	46.4	88.1	67.9	101.5	**222.8**
As a % of average loan portfolio	0.6%	1.1%	0.8%	1.1%	**2.1%**

Impaired Financing Portfolio

as at March 31 ($ in millions)

	2005	2006	2007	2008	2009
Impaired portfolio	301	299	286	293	**516**
Impaired portfolio as a % of loan portfolio	3.8%	3.5%	3.1%	2.9%	**4.6%**

BDC maintains the cumulative allowance for credit losses at a level considered adequate to absorb the credit losses in BDC's portfolio. As of March 31, 2009, the allowance totalled $665.0 million, compared with $532.7 million a year ago. The total allowance represented 6.0% of the loan portfolio outstanding at March 31, 2009, compared to 5.3% at March 31, 2008.

Allowance for Credit Losses

as at March 31 (percentage)

	2005	2006	2007	2008	2009
Total allowance as a % of loan portfolio	6.0	5.8	5.5	5.3	**6.0**
General allowance as a % of performing portfolio	4.9	4.8	4.5	4.3	**4.2**

The total allowance at March 31, 2009 included a specific allowance of $220.3 million and a general allowance of $444.7 million.

The general allowance is maintained to absorb impairment in the existing portfolio when a specific allowance cannot yet be determined. The general allowance represented 4.2% of the performing portfolio, compared with 4.3% in fiscal 2008.

The slight decrease related mainly to our prudent due diligence during this economic downturn to identify existing impairments, which the increase in our specific allowance reflected.

BDC closely monitored signs of problematic accounts. Credit risk management is discussed further in note 17 to the Consolidated Financial Statements.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $248.7 million in fiscal 2009, compared with $244.8 million in fiscal 2008, a slight increase of 1.6%. Salaries and benefits decreased by $2.4 million, mostly due to lower variable compensation commensurate with weaker results. Other operating and administrative expenses, including premises and equipment, increased by $6.3 million. That was largely the result of investments in work process improvements and other special projects.

NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS

In fiscal 2009, BDC recorded net gains on financial instruments of $88.7 million. This includes net realized gains of $29.0 million and net unrealized gains of $59.7 million.

The net unrealized gains are mainly due to the abnormal gap—as a result of financial market instability—between the *Government Agency yield curve* used to fair value our borrowings instruments and the *Swap yield curve* used to fair value our derivative instruments. The net unrealized gains also included unrealized losses on derivative instruments due to the implementation of the CICA Emerging Issue Committee's Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which requires an entity to take into account credit risk when determining the fair value of financial instruments.

INCOME FROM BDC FINANCING

Income from BDC Financing was $193.0 million in fiscal 2009, $32.1 million higher than the $160.9 million recorded in fiscal 2008. BDC Financing income before net gains or losses on financial instruments was $104.3 million in fiscal 2009, compared to $166.2 million in fiscal 2008, a decrease of $61.9 million. The decrease from fiscal 2008 was mainly caused by a significant increase in the provision for credit losses due to the difficult economic conditions, partially offset by higher net interest income.

PERFORMANCE AGAINST OBJECTIVE

The $11.1-billion portfolio was significantly higher than the corporate plan objective of $10.4 billion. Disbursements at $2.8 billion were consistent with the corporate plan objective of $2.7 billion. The higher than expected growth was due mainly to: lower payments resulting from BDC's extension of repayment terms to clients to increase their working capital; and lower prepayments due to lower liquidity in the markets.

Financing income for fiscal 2009 was $193.0 million, compared with $140 million targeted in the corporate plan. Excluding net realized and unrealized gains on financial instruments of $88.7 million, fiscal 2009 operating income of $104.3 million was $35.7 million below the corporate plan objective. This decrease was mainly due to a higher provision for credit losses, partially offset by higher net interest income and lower operating and administrative expenses.

Net interest income was $43.1 million higher than the $497 million targeted. The variance is explained by higher portfolio growth and better achieved margins due to the lower cost of borrowings.

The provision for credit losses of $222.8 million was much higher than the corporate plan objective of $123 million. We expected the credit environment to tighten slightly but did not anticipate the severity of the current recession.

While business growth exceeded our corporate plan objective, total operating and administrative expenses were $19.3 million below the corporate plan target. The decrease was mainly due to lower salaries and benefits, because the number of employees and variable compensation were both lower than expected. Other expenses were $6.6 million lower than planned as a result of management's focus on cost control.

BDC SUBORDINATE FINANCING

Subordinate financing investments are hybrid instruments that combine elements of debt and equity financing. We offer them to entrepreneurs who need working capital for fast growth but who do not have the tangible security that conventional lenders require and do not wish to dilute their ownership of their firm.

In fiscal 2004, BDC and the Caisse de dépôt et placement du Québec (the Caisse) agreed to invest $150 million over three years in a joint partnership fund called AlterInvest Fund LP. This fund has been fully committed. In November 2006, BDC and the Caisse created a second fund, AlterInvest II Fund LP, to invest an additional $330 million. Since 2003, our subordinate financing activity has taken place via these funds, for which we act as the general partner. In fiscal 2006, we started reporting subordinate financing investments at fair value.

SUBORDINATE FINANCING PORTFOLIO

The consolidated BDC Subordinate Financing portfolio of $155.1 million was consistent with last year's level of $156.2 million. Portfolio assets under BDC management increased slightly from $282.7 million to $285.9 million.

INCOME FROM SUBORDINATE FINANCING

BDC Subordinate Financing reported income of $6.8 million for the year, $4.2 million lower than reported in fiscal 2008 but still a very good result considering the difficult economic conditions.

Net interest income of $14.7 million was higher than the fiscal 2008 result of $13.7 million. Realized gains and losses on investments and other income totalled $7.3 million in fiscal 2009, a decrease of $2.7 million from fiscal 2008, as a result of higher write-offs. The change in unrealized depreciation of investments of $3.4 million was $3.1 million higher than fiscal 2008's level of $0.3 million, reflecting more difficult economic conditions.

PERFORMANCE AGAINST OBJECTIVE

Income from BDC Subordinate Financing of $6.8 million in 2009 was slightly above the corporate plan objective of $6.6 million.

BDC VENTURE CAPITAL

BDC Venture Capital invests in the development of high-potential Canadian technology firms and helps cultivate them into globally focused, growth-oriented companies.

These investments are essential to achieving our shareholder's goal of deriving economic benefit from its investments in research and development at educational and research institutions across the country.

Economic benefit derived from knowledge is a defining feature of advanced 21st-century economies. As such, it is a crucial part of Canada's long-term plan for prosperity.

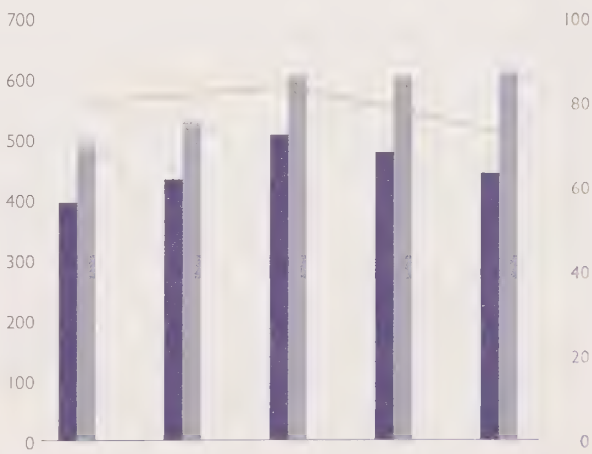
BDC's specialized investments cover every stage of a venture-funded company's development cycle, from seed through expansion to market entry. We primarily focus on early-stage companies that are developing emerging technologies and that have the potential to become world leaders in niche markets.

We invest in companies directly or via investment funds. We hold our venture capital assets through BDC Capital Inc. and have been measuring them at fair value since fiscal 2006.

VENTURE CAPITAL PORTFOLIO

The fair value of the portfolio decreased from $476.0 million in fiscal 2008 to $441.6 million as of March 31, 2009. Of the total fair value of $441.6 million, $389.4 million related to direct investments in companies and $52.2 million to investments in 18 funds. The decrease was due to dispositions, write-offs and fair value movements of $121.6 million, net of disbursements of $87.2 million.

Valuation of BDC Venture Capital: Total Investments
as at March 31 ($ in millions)



	2005	2006	2007	2008	**2009**
Fair value	393.2	431.4	505.1	476.0	**441.6**
Cost	491.5	525.6	601.2	601.4	**608.7**
Fair value as % of cost	80%	82%	84%	79%	**73%**

Since 2005, the portfolio at cost has increased by almost 25%. BDC Venture Capital has been growing its portfolio in accordance with the Government of Canada strategy that focuses on seed, start-up and development-stage companies. In fiscal 2009, investments were lower than in prior years due to capital constraints. We disbursed $87.2 million in additional rounds of financing to support our high-potential clients.

LOSS FROM VENTURE CAPITAL

Venture capital is a cyclical industry. Current economic uncertainty has exacerbated an existing broad slowdown in North American and global venture capital markets. Declining venture capital fundraising and the lack of profitable exit opportunities have severely curtailed venture capital investments in Canada, as well as the financial performance of venture capital firms. These market conditions, combined with the highly risky and illiquid nature of venture capital investments, have resulted in a pronounced volatility of earnings.

Venture capital investments are necessarily of several years' duration. In the years immediately following an investment, as entrepreneurs work to create value in their fledgling technology firms, investors habitually see a decline in the value of their holding. Exits during this period usually precipitate losses. It is only in later years—often after a decade or more—that investors can monetize this new value by selling their holding.

BDC Venture Capital Operations

for the years ended March 31 ($ in millions)

	2009	2008	2007	2006	2005
Net realized gains (losses) on investments	**(25.2)**	(40.9)	(1.2)	21.6	12.7
Write-down of investments / unrealized depreciation (2006–2009)	**(76.4)**	(34.5)	(26.5)	(27.7)	(47.4)
Venture capital operating loss	**(106.3)**	(82.8)	(33.6)	(12.8)	(56.1)

In fiscal 2009, BDC Venture Capital recorded a loss of $106.3 million, compared with a $82.8-million loss in fiscal 2008. Most of this loss was due to the change in the fair value of investments.

Once again, divestitures were low in fiscal 2009. Net realized losses on investments amounted to $25.2 million, compared with $40.9 million in fiscal 2008. Fiscal 2009 results included $27.4 million in net gains from sales and $52.7 million in write-offs. Despite difficult market conditions, BDC realized an important gain of $36.3 million from the sale of one investment, generating a 5.3:1 return of capital and achieving an internal rate of return of 73%. Interest, dividends and other income in fiscal 2009 totalled $2.2 million, compared with $9.7 million last year.

BDC recorded $34.8 million in unrealized foreign exchange gains on investments due to foreign exchange fluctuations on its U.S. dollar investments. BDC monitors U.S. currency fluctuations and uses foreign exchange contracts to partially hedge U.S. dollar investment. Therefore, a $28.4-million net loss on foreign exchange contracts partly offset gains recognized due to U.S. dollar appreciation.

The change in the unrealized depreciation of investments amounted to $76.4 million in fiscal 2009, an increase of $41.9 million compared with last year. The change in unrealized depreciation included a net depreciation of $140.7 million in the portfolio during fiscal 2009 and a reversal of net fair value depreciation on divested investments of $64.3 million.

The depreciation of $140.7 million in the portfolio reflected the fair value of our investments given the difficult market conditions described above. This amount comprised a $7.6-million depreciation in fund investments, a $13.9-million depreciation related to public company holdings and a $119.2-million depreciation of private company investments.

Operating and administrative expenses amounted to $13.3 million, a slight increase from the $12.8 million recorded in fiscal 2008.

PERFORMANCE AGAINST OBJECTIVE

The BDC Venture Capital loss of $106.3 million was significantly higher than the corporate plan objective of a $25-million loss, largely due to increased depreciation in the fair value of investments. Given the absence of exit opportunities in the market and the fact that most of BDC's early-stage venture capital portfolio has yet to fully mature, it is difficult for BDC to accurately project when investees may encounter financial difficulties. Fair value determinations of venture capital investments can thus be very volatile.

BDC CONSULTING

BDC Consulting offers customized business consulting services at a cost entrepreneurs can afford. We strive to provide Canadian entrepreneurs with the support they need to grow their business and enhance their competitiveness in local and global markets. That is especially true during recessions. Our clients' modest financial means and wide geographic dispersal give them no shelter from this imperative.

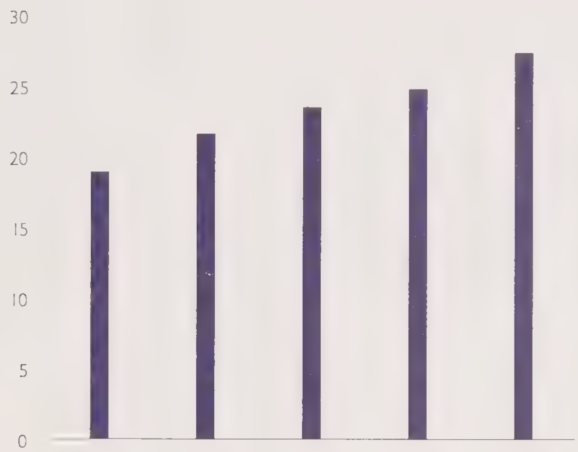
LOSS FROM CONSULTING

BDC generates consulting revenues as we perform mandates. BDC Consulting revenues reached a record high of $27.4 million in fiscal 2009, a 10.6% increase when compared with fiscal 2008.

BDC started 2,720 consulting mandates in fiscal 2009, in line with last year's result of 2,770 mandates but higher than our objective of 2,600 mandates.

BDC Consulting Revenue

for the years ended March 31 ($ in millions)



2005	2006	2007	2008	**2009**
18.9	21.6	23.5	24.8	**27.4**

As a result of higher revenues, BDC Consulting's loss was reduced by 35% from $4.5 million to $2.9 million. Operating and administrative expenses of $30.4 million increased by $1.0 million over last year.

PERFORMANCE AGAINST OBJECTIVE

Revenues of $27.4 million were $1.4 million better than the corporate plan target, due to an increase in average mandate size. At $2.9 million, the net loss was 27% better than the corporate plan objective of a $4.0-million loss.

BALANCE SHEET

In fiscal 2009, total assets were up by $667.3 million, or 5.8%, from a year ago, largely attributable to solid growth in our financing portfolio.

BDC holds cash, cash equivalents and securities in accordance with its liquidity and investment management policy. Our liquidities, which ensure funds are available to meet client needs, totalled $604.3 million at year-end fiscal 2009, compared with $816.6 million in fiscal 2008. Liquidity levels have been revised in fiscal 2009 to take into consideration the results of the Crown Borrowing Program, which allowed BDC to reduce its liquidity band requirements.

At $10.5 billion, the loan portfolio, net of allowance for credit losses, was the largest asset on the balance sheet. This portfolio increased by $970.7 million, or 10.2%, from fiscal 2008, as a result of high demand for BDC Financing services, as well as lower payments and prepayments due to decreased liquidity in the market and to BDC's initiatives to extend terms to support clients' working capital requirements in these difficult times.

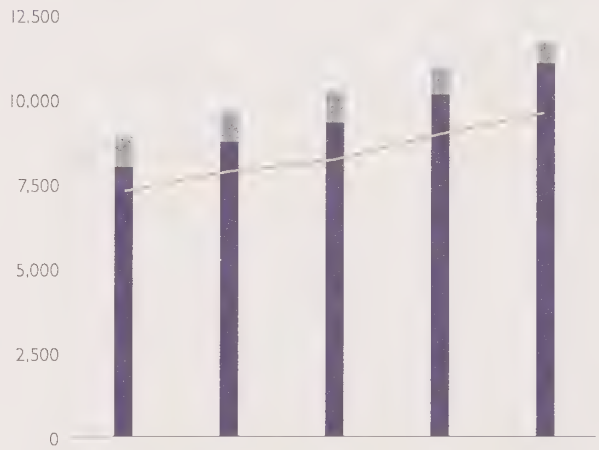
The subordinate financing loan and investment portfolio at $155.1 million was consistent with last year's level of $156.2 million. The fair value of the venture capital investment portfolio at $441.6 million decreased by $34.4 million or 7.2% compared with last year, reflecting difficult market conditions.

Derivative assets of $199.5 million and derivative liabilities of $51.7 million reflected the fair value of derivative financial instruments as at March 31, 2009.

Other assets of $214.1 million included an accrued benefit pension asset of $136.1 million, while other liabilities of $141.0 million included an accrued benefit pension liability of $109.9 million.

Borrowings

as at March 31 ($ in millions)

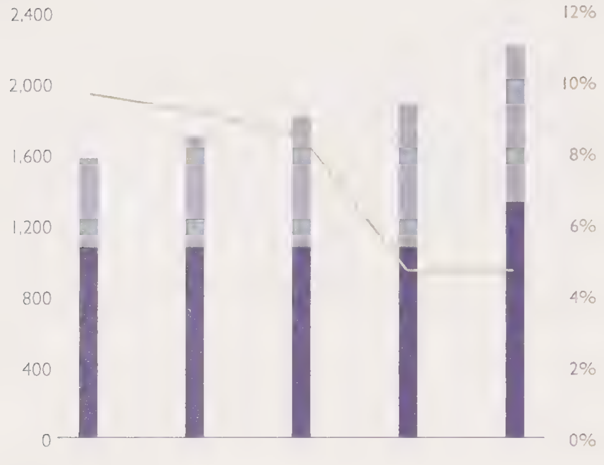


	2005	2006	2007	2008	**2009**
Liquid assets	903	930	929	817	**604**
Portfolios*	7,966	8,705	9,276	10,114	**11,049**
Borrowings	7,288	7,876	8,228	8,986	**9,629**

* Includes net portfolios and investments

At March 31, 2009, we funded portfolios and liquidities with borrowings of $9.6 billion and total equity of $2.2 billion. Borrowings in short-term and long-term notes increased by 7.2% in relation to the overall growth in portfolio assets. The mix between short-term and long-term notes significantly changed, as we now fund a portion of the floating rate loan portfolio with long-term floating rate notes for which interest rates are adjusted monthly.

Total Shareholder's Equity
as at March 31 ($ in millions)



	2005	2006	2007	2008	2009
Paid-up capital*	1,066.2	1,066.2	1,066.2	1,066.2	**1,316.2**
Retained earnings	503.4	625.1	741.5	804.0	**878.1**
Accumulated other comprehensive income (loss)	–	–	–	(2.8)	**(4.7)**
Total shareholder's equity	1,569.6	1,691.3	1,807.7	1,867.4	**2,189.6**
Return on common equity	9.7%	9.2%	8.5%	4.7%	**4.7%**

* Includes $27.8 million of contributed surplus.

Dividends
for the years ended March 31 ($ in millions)

	2005	2006	2007	2008	2009*
Preferred declared	9.0	8.7	9.5	9.5	**8.9**
Common declared	3.3	7.8	12.1	12.0	**7.0**
Total dividends declared	12.3	16.5	21.6	21.5	**15.9**
Total dividends paid	13.6	16.8	20.8	21.5	**16.5**

* In addition, based on BDC's fiscal 2009 performance, common dividends of $7.9 million were declared after March 31, 2009, and will be paid and recorded in fiscal 2010.

Equity consisted of $1.3 billion in paid-up capital, $878.1 million in retained earnings and $4.7 million in accumulated other comprehensive loss. Retained earnings grew by $74.1 million in fiscal 2009 to $878.1 million due to three factors: (i) a consolidated net income of $90.6 million, which increased retained earnings; (ii) declared dividends of $15.9 million, which reduced retained earnings; and (iii) a negative transition adjustment of $0.4 million attributable to the implementation of the CICA Emerging Issue Committee's Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*.

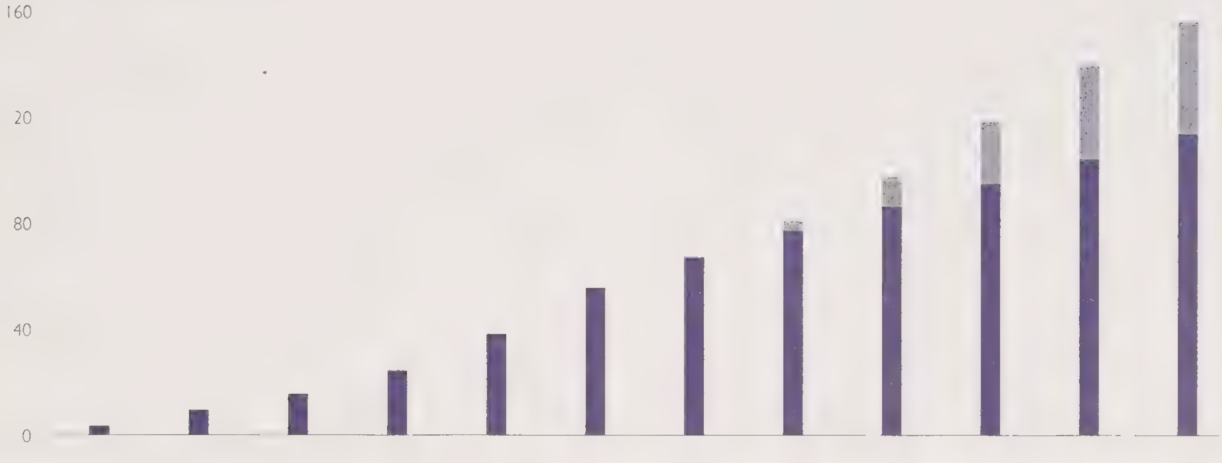
Return on common equity was 4.7%, consistent with fiscal 2008 but below the 6.3% planned for fiscal 2009.

DIVIDENDS

BDC pays dividends to its sole shareholder, the Government of Canada. We declared dividends of $15.9 million in fiscal 2009. Of this amount, $7.0 million was on common shares based on the fiscal 2008 results; the remainder was related to preferred shares. In fiscal 2009, we paid dividends of $16.5 million.

Cumulative Dividends Paid

as at March 31 ($ in millions)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
Preferred dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.1	77.3	86.4	95.1	104.5	**114.0**
Common dividends paid	–	–	–	–	–	–	0.4	3.8	11.5	23.6	35.7	**42.7**
Total dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.5	81.1	97.9	118.7	140.2	**156.7**

BDC will be making an additional total payment of $16.8 million in June 2009 ($8.9 million on preferred dividends declared in fiscal 2009, and $7.9 million on common dividends declared after March 31, 2009, based on fiscal 2009 performance).

CAPITAL MANAGEMENT

STATUTORY LIMITATIONS

BDC's debt-to-equity ratio cannot exceed 12:1. At March 31, 2009, it was at 4.4:1, compared with 4.8:1 at March 31, 2008. In addition, the paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $3.0 billion. This maximum represents an increase of $1.5 billion compared to fiscal 2008, as a result of the 2009 federal budget. At March 31, 2009, these amounts totalled $1.316 billion ($1.066 billion as at March 31, 2008), an increase of $250 million from fiscal 2008, as the result of a capital injection.

Debt-to-Equity Ratio

as at March 31

	2005	2006	2007	2008	**2009**
Actual	4.6	4.7	4.6	4.8	**4.4**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

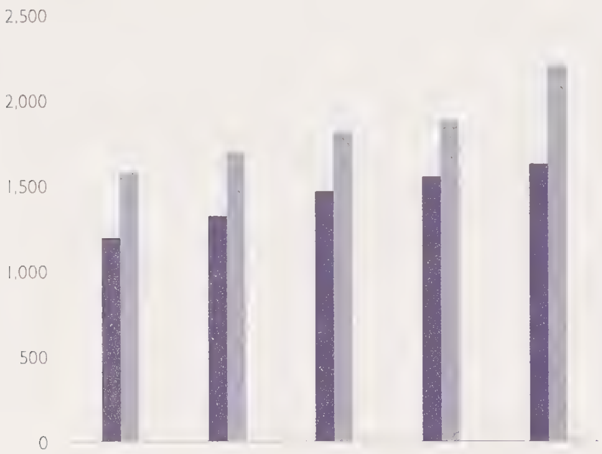
CAPITAL ADEQUACY

Treasury Board of Canada provides BDC with capital adequacy ratio guidelines. We must maintain capital and loss provisions sufficient to ensure BDC can withstand unfavourable economic circumstances without requiring additional government funding.

Adequate capital ratios reflect the relative risk of the various asset types we hold. The required capital is at least 10% of net value for term loans, 25% for quasi-equity loans and 100% for venture capital investments. As per the graph below, BDC operates in accordance with its regulatory capital ratios.

Capital Adequacy

as at March 31 ($ in millions)



	2005	2006	2007	2008	**2009***
Minimum capital required	1,189	1,316	1,460	1,545	**1,618**
Actual	1,570	1,691	1,808	1,870	**2,194**

* Excludes accumulated other comprehensive income or loss.

While BDC is not required to meet the requirements of the Basel II Capital Accord, we use an economic capital model and a supporting risk rating system that comply with Basel requirements. The capital model looks beyond market, credit and operational risks to business risks and maturity risks. Our model now assesses operational risks more accurately, based on internally observed measures rather than external industry benchmarks.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 21 to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled $22.5 million in fiscal 2009, compared with $17.3 million in fiscal 2008. As of December 2008, the registered pension plan was in a deficit situation for funding purposes. The current economic environment negatively affected the performance of our pension plan assets and we expect to contribute higher amounts to our pension plans during the next years to manage our funded status. We fund our registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current federal pension regulations.

In fiscal 2006, BDC also chose to fund the supplemental plans. BDC contributed $9.8 million in fiscal 2009, compared with $10.1 million in fiscal 2008. Other employee future benefits remained unfunded.

OUTLOOK FOR 2010

The difficult economic environment will curtail overall profitability in fiscal 2010. We project a consolidated net loss of $174 million in fiscal 2010, when excluding the impact of the Canadian Secured Credit Facility program.

We declared, after year-end, a common share dividend of $7.9 million based on our fiscal 2009 financial performance. We will record and pay this dividend in fiscal 2010. We also project a $9-million dividend on preferred shares, which we will declare in fiscal 2010.

BDC FINANCING

Notwithstanding the severe economic conditions, we are planning for our lending (volume in dollars) and our portfolio to increase in fiscal 2010.

Business Credit Availability Program (BCAP)

This is a new program initiated by our shareholder to support creditworthy business clients who would otherwise have insufficient access to credit. By participating in it, BDC, Export Development Canada and private sector banks will provide, at market prices, up to $5 billion in additional loans and other forms of credit support and enhancement.

BCAP has several components: loan syndications, a commercial mortgage loan purchase program, an operating line of credit guarantee, a working capital support program and loan referrals.

It is, however, important to note that BCAP is a collaborative effort in which BDC is but one of several participants. Its success is necessarily a function of factors such as demand and effective referrals that are beyond the control of any of its individual participants. For these reasons, it is difficult to predict financial outcomes and actual results may differ significantly from our corporate plan objectives.

In addition, we will increase our lending to high-risk businesses through the Working Capital Support program (WCS), an important contribution to the facilitation of economic recovery. The WCS will provide a combination of partially secured and unsecured working capital solutions to Canadian businesses so they can sustain their operations during this difficult period.

We anticipate that lower liquidity in the market will continue to increase the demand for our services, particularly from medium-sized firms and larger Canadian businesses.

As a consequence of our participation in BCAP, we expect the financing portfolio to increase from $11.1 billion in fiscal 2009 to $12.3 billion by the end of fiscal 2010.

2010 Objectives

Net interest and fee income is expected to increase from $575.8 million in fiscal 2009 to $639 million in fiscal 2010, mainly due to growth in the financing portfolio. We also plan a $10-million net unrealized losses on financial instruments reflecting the expected reversal of the net unrealized gains on financial instruments recorded in fiscal 2009. As fair value change on financial instruments is difficult to forecast, actual results may significantly differ from corporate plan objectives.

While loan activity and the portfolio will grow over the planning period, a slower economy and the higher risk transactions to be undertaken in the WCS will mean higher downgrades and provisions for credit losses. Consequently, provision for credit losses is projected to be 3.6% of the average outstanding financing portfolio in fiscal 2010. That represents $421 million, an increase of $198 million compared with fiscal 2009.

We expect operating and administrative expenses to rise by 18% to reach $294 million. This increase is due to higher pension expenses combined with the cost of resources needed to manage impaired loans and deploy BCAP initiatives.

Combined, these elements are expected to generate a BDC Financing loss of $86 million in fiscal 2010.

BDC SUBORDINATE FINANCING

Our subordinate financing portfolio is expected to decrease slightly in 2010, from $155.1 million to $147 million, as a result of difficult economic conditions. We expect to generate $4.4 million in income in 2010, $2.4 million lower than the result achieved in fiscal 2009.

BDC VENTURE CAPITAL

Venture capital investing requires patient, long-term commitment. Over the last several years, difficult venture capital market conditions and the absence of exit opportunities have had a considerable impact on BDC Venture Capital's portfolio of direct and fund investments. Average holding periods to exit have increased, resulting in fewer divestitures and increased need for capital to support portfolio companies. That is particularly true for BDC because it holds investments in many seed, start-up and early-stage companies.

At present, it is impossible to predict when market conditions will improve enough to permit profitable exits. We see no indications of improvements in the short term. But we remain committed to our shareholder's mandate to support commercialization in Canada. We will dedicate greater capital and management support to the investees that have the highest potential to succeed and will support their ability to grow and compete in world markets.

In our corporate plan, we assume a $250-million capital injection from the shareholder in fiscal 2010.

Based on these assumptions, we anticipate an increase in authorizations in fiscal 2010. The venture capital portfolio at fair value is planned to increase to $464 million.

Due to difficult market conditions, we project a loss of $85 million in fiscal 2010.

BDC CONSULTING

We expect BDC Consulting to report a loss of $7.0 million in fiscal 2010, due mainly to a decrease in revenues because of the economic slowdown. We expect revenues of $24.0 million, compared to $27.4 million in fiscal 2009.

CANADIAN SECURED CREDIT FACILITY

The Government of Canada has created the Canadian Secured Credit Facility (CSCF). The aim of the CSCF is to facilitate the provision of new credit to businesses and consumers in Canada by helping to re-create a market for auto and equipment loans and for leasing securitization through the purchase of AAA-rated term securities backed by loans and leases on vehicles and equipment. BDC has established and will manage the CSCF on behalf of the federal government.

Credit tightening, an economic downturn and illiquidity in credit markets have reduced investor appetite for asset-backed securities (ABS) products and have significantly increased the yield investors demand on ABS. The present yield demanded by investors has significantly increased the cost to both business and consumer borrowers and, in some cases, has completely removed certain financing products from the market. The role of the CSCF program is to increase liquidity in the market and to augment investor confidence in ABS backed by loans and leases on vehicles and equipment.

The acquisitions BDC will make directly and when acting as the agent for the Crown are expected to total $12 billion and will be undertaken by December 31, 2009.

Canadian accounting standards require the use of fair value accounting on initial recognition of financial assets. The fair value model at initial recognition will result in BDC recognizing a Day One loss on ABS purchases. This loss represents an accounting adjustment to reflect the difference between the yield that BDC is prepared to accept and the market-demanded yield for such securities.

The Day One loss is subject to significant uncertainty, given the current environment. It is important to understand that, where BDC holds an ABS to maturity, the Day One loss will reverse itself completely by the maturity of the ABS. If the ABS were to be sold before maturity, a subsequent fair value adjustment would take place and the value would depend on market conditions.

The CSCF program is expected to report a significant loss in fiscal 2010, due mainly to the Day One loss. In the following years, the CSCF program should report positive income to BDC.

5. ACCOUNTING & CONTROL MATTERS

CRITICAL ACCOUNTING ESTIMATES

BDC's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. Certain of these policies, as well as estimates made in applying such policies, are considered critical, as they require significant judgements by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies and estimates are reviewed and applied consistently from period to period. Critical accounting policies include those related to the allowance for credit losses; the fair value of financial instruments, including venture capital and subordinate financing investments; and pension and other employee future benefits.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is management's estimate of probable credit-related losses in the financing portfolio. It comprises the specific allowance and the general allowance. Management determines the specific allowance by identifying and determining losses related to impaired loans, and determines the general allowance by assessing probable existing losses in the performing portfolio.

BDC determines the allowances based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make assumptions and judgements by carrying out certain activities, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on relevant experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends and on portfolio characteristics and composition; and (vii) determining the current position of economic and credit cycles. Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level.

BDC maintains its allowance for credit losses at an adequate level, taking into consideration the relatively high risk profile of its financing activities. Note 2 to the Consolidated Financial Statements details the methods used to calculate the allowance for credit losses.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting standards require that all financial instruments be measured at fair value on initial recognition. In subsequent periods, they are measured at fair value, except for items classified as loans and receivables, or as other financial liabilities, which are measured at amortized cost. A more complete description of the accounting treatment of financial instruments is presented in Note 2 to the Consolidated Financial Statements.

Fair value is the price an unrelated knowledgeable party would pay or receive for a financial instrument. Published price quotations in an active market are the best evidence of fair value and, when they exist, BDC uses them to measure financial instruments. If a financial instrument's market is not active, its fair value is established using valuation techniques that make use of observable market inputs.

Investments held by investment companies are also recorded at fair value under generally accepted accounting principles (GAAP). As most of these investments are in private companies, no readily available market value exists and judgement is needed to determine their fair value. BDC derives its approach to fair value measurement from international guidelines. Note 2 to the Consolidated Financial Statements details the methods BDC uses to estimate the fair value of its investments. Fair value is management's best estimate and involves significant assumptions, such as the capitalization or discount rate.

Due to the judgement used in calculating fair values, they are not necessarily comparable among financial institutions and may not be indicative of net realizable value.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC provides defined benefit pension plans and other benefit plans to eligible employees after their retirement. These plans include a registered pension plan, supplemental pension plans and other plans, such as plans for post-retirement and post-employment benefits.

Actuaries calculate the pension and other employee future benefits expense using various assumptions that management determines. These assumptions include discount rates, expected rates of return on assets, health care cost trends, inflation rates, projected salary increases and mortality rates. Actual experience that differs from the actuarial assumptions used will affect the amount of benefit obligation, and the expense could increase or decrease significantly in future years.

Notes 2 and 21 to the Consolidated Financial Statements present the key assumptions used and describe their sensitivity.

FUTURE CHANGES IN ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the CICA Accounting Standards Board announced that all Canadian publicly accountable enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The objective of the change is to help Canada contribute to the use of a single set of worldwide accounting standards, thereby facilitating and improving global capital flows, as well as improving financial reporting and transparency.

BDC will begin using IFRS on April 1, 2011. The fiscal 2012 Consolidated Financial Statements will also include comparative fiscal 2011 financial results under IFRS. Over the next two years, BDC will continue assessing the implications of converting to IFRS and estimate the impact on the Consolidated Financial Statements.

The conversion to IFRS is a significant initiative. BDC's board of directors and senior management are dedicated to ensuring its proper implementation. The IFRS conversion is being done in three phases. Phase I involves diagnostic and scoping activities; phase II includes the project setup and launch, the evaluation of financial statement components, and operational analysis; and phase III involves implementing changes in systems and processes.

BDC has completed phase I of its IFRS conversion. The objective of this exercise was to identify the key differences between BDC's application of GAAP and IFRS. The diagnostic and scoping phase provided a preliminary overview of potentially high-impact areas, identified in terms of the effort required to achieve compliance and the potential impact on BDC's Consolidated Financial Statements.

BDC is currently in phase II of its IFRS project. It has completed the project setup and launch, and it is well advanced in its evaluation of financial statement components and its operational analysis. Activities in this phase include identifying the differences between BDC's application of Canadian GAAP and IFRS, identifying potential business impacts, evaluating IFRS transitional adjustments and preparing IFRS financial statements.

The following table is designed to help stakeholders better understand BDC's IFRS changeover plan.

Phase I	Phase II		Phase III	
Diagnostics	**Project Setup**	**Component Evaluation and Issues Resolution**	**Initial Conversion**	**Embedding**

> Organize overall project
> Research financial information
> Perform initial diagnosis
> Assess process and system impacts
> Outline work plan
> Identify required resources and costs
> Determine final deliverables
> Start training
	> Define roles and responsibilities
	> Create detailed project plan
	> Identify and train project teams
	> Communicate project strategy
	> Select IFRS champions
		> Prepare component evaluations
		> Identify
		  > changes to accounting policies
		  > additional information requirements
		  > additional data requirements
		> Identify and resolve accounting treatment issues
			> Prepare IFRS adjustments
			> Post adjustments to reporting packages
			> Prepare IFRS financial statements
			> Perform systems diagnosis
				> Prepare accounting manual
				> Design new business processes
				> Develop implementation strategy
				> Implement change plan by business unit
				> Roll out process
				Design and build systems

Key Outputs	**Key Outputs**	**Key Outputs**	**Key Outputs**	**Key Outputs**

> Accounting and financial information diagnosis completed
> Project scope and strategy recommended
	> Project management file establishes
	  > roles and responsibilities
	  > issue resolution methods
	  > communication plan
	  > conversion tools
		> Issues resolved
		> Accounting policies agreed on
		> Conversion strategy options identified
		> Systems schematic developed
			> Year 1 IFRS financial statements prepared
			Systems modification design completed
				Full IFRS reporting embedded across organization
				Systems modifications completed

At this time, we cannot quantify the impact that the future adoption of IFRS will have on our Consolidated Financial Statements and operating performance measures. The impact may be material; however, we do not expect significant changes to our information technology and data systems. As we approach the changeover date, we will provide additional information that reflects our most current assumptions and expectations; circumstances may arise—such as changes in IFRS, regulations or economic conditions—that could change these assumptions or expectations.

CONTROLS AND PROCEDURES

During the last fiscal year, BDC finished implementing a certification regime for internal controls, evaluating the design of the internal controls over financial reporting, and evaluating the design of the disclosure controls and procedures, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) control framework.

BDC expects to finish evaluating the effectiveness of the internal controls over financial reporting and of disclosure controls and procedures in fiscal 2010.

BDC has reached the following conclusions regarding the design of the internal controls over financial reporting.

The certifying officers have, at the end of the period,

adequately designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes, in accordance with GAAP; and

documented internal controls over financial reporting.

BDC has reached the following conclusions on the design of the disclosure controls and procedures.

The certifying officers have, at the end of the period,

adequately designed disclosure controls and procedures to provide reasonable assurance that

> material information relating to BDC is made known to us by others, particularly during the period in which the Consolidated Financial Statements are being prepared, and

> information that BDC must disclose in its Consolidated Financial Statements is processed, summarized and reported while the Consolidated Financial Statements are being prepared; and

adequately designed disclosure controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes, in accordance with GAAP.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Consolidated Financial Statements of the Business Development Bank of Canada (BDC) were prepared and presented by management in accordance with Canadian generally accepted accounting principles. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls is augmented by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the vice president, internal audit and the independent auditors have full and free access to the Audit Committee of the board of directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The board of directors, through the Audit Committee, which comprises directors who are not employees of BDC, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada, have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Jean-René Halde
President and Chief Executive Officer
Montreal, Canada
May 22, 2009

Paul Buron, CA
Executive Vice President
and Chief Financial Officer

AUDITORS' REPORT

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2009 and the consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the changes in accounting policies adopted in the current year as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank and of its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank, the charter and the by-laws of its wholly-owned subsidiary, and the directive issued pursuant to Section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Sheila Fraser

Sheila Fraser, FCA auditor
Auditor General of Canada

Montreal, Canada
May 22, 2009

Raymond Chabot
Grant Thornton LLP

[1] Chartered accountant auditor permit no. 6981

CONSOLIDATED BALANCE SHEET

As at March 31 ($ in thousands)

	2009	2008
Assets		
Cash and cash equivalents (Note 4)	552,373	725,376
Securities (Note 5)	51,897	91,210
	604,270	816,586
Loans, net of allowance for credit losses (Note 6)	10,452,173	9,481,449
Subordinate financing loans and investments (Note 7)	155,070	156,158
Venture capital investments (Note 8)	441,631	475,985
	11,048,874	10,113,592
Fixed assets, net of accumulated amortization (Note 9)	24,192	28,271
Derivative assets (Note 18)	199,488	206,882
Other assets (Note 10)	214,087	258,235
	437,767	493,388
Total Assets	12,090,911	11,423,566
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	66,752	65,503
Accrued interest on borrowings	12,969	34,144
	79,721	99,647
Borrowings (Note 11)		
Short-term notes	1,984,001	5,197,591
Long-term notes	7,644,992	3,788,058
	9,628,993	8,985,649
Derivative liabilities (Note 18)	51,677	321,805
Other liabilities (Note 12)	140,956	149,148
	192,633	470,953
Shareholder's Equity		
Share capital (Note 13)	1,288,400	1,038,400
Contributed surplus	27,778	27,778
Retained earnings	878,107	803,967
Accumulated other comprehensive income (loss)	(4,721)	(2,828)
	2,189,564	1,867,317
Guarantees, contingent liabilities and commitments (Note 20)		
Total Liabilities and Shareholder's Equity	12,090,911	11,423,566

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Approved by the board:

S E Bracken-Horrocks

Stan Bracken-Horrocks

Director
Chairperson, Audit Committee

Jean-René Halde

Jean-René Halde

Director
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 ($ in thousands)

	2009	2008
Financing		
Interest income		
Loans	725,503	796,662
Cash equivalents and securities	17,881	47,880
	743,384	844,542
Interest expense	203,292	365,427
Net interest income	540,092	479,115
Fee income	35,751	33,399
Provision for credit losses (Note 6)	222,848	101,482
Income before operating and administrative expenses and net gains (losses) on financial instruments	352,995	411,032
Operating and administrative expenses (Note 15)	248,716	244,852
Income before net gains (losses) on financial instruments	104,279	166,180
Net realized gains on financial instruments	28,981	–
Net unrealized gains (losses) on financial instruments	59,768	(5,302)
Income from Financing	193,028	160,878
Subordinate Financing		
Interest income	18,760	18,446
Interest expense	4,025	4,715
Net interest income	14,735	13,731
Realized gains and losses on investments and other income	7,296	10,014
Change in unrealized depreciation of investments	(3,402)	(299)
Income before operating and administrative expenses	18,629	23,446
Operating and administrative expenses (Note 15)	11,869	12,439
Income from Subordinate Financing	6,760	11,007
Venture Capital		
Net realized losses on investments	(25,243)	(40,902)
Interest, dividends and other	2,167	9,713
Unrealized foreign exchange gains (losses) on investments	34,788	(15,542)
Net (losses) gains on foreign exchange contracts	(28,357)	11,176
Change in unrealized depreciation of investments	(76,366)	(34,455)
Loss before operating and administrative expenses	(93,011)	(70,010)
Operating and administrative expenses (Note 15)	13,280	12,791
Loss from Venture Capital	(106,291)	(82,801)
Consulting		
Revenue	27,435	24,802
Operating and administrative expenses (Note 15)	30,365	29,323
Loss from Consulting	(2,930)	(4,521)
Net Income	90,567	84,563

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 14 provides additional information on earnings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31 ($ in thousands)

	2009	2008
Net Income	90,567	84,563
Other Comprehensive Income (Loss)		
Net unrealized gains on available-for-sale assets	147	256
Reclassification to net income of (gains) losses on available-for-sale assets	(17)	27
Net Change in Unrealized Gains on Available-for-Sale Assets	130	283
Net unrealized losses on derivatives designated as cash flow hedges	(1,515)	(584)
Reclassification to net income of gains on derivatives designated as cash flow hedges	(864)	–
Net Change on Derivatives Designated as Cash Flow Hedges	(2,379)	(584)
Other Comprehensive Income (Loss)	(2,249)	(301)
Comprehensive Income	88,318	84,262

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended March 31 ($ in thousands)

	2009	2008
Share Capital (Note 13)	1,288,400	1,038,400
Contributed Surplus	27,778	27,778
Retained Earnings, Beginning of Year	803,967	741,540
Transition adjustment on financial instruments[1]	(473)	(639)
Net income	90,567	84,563
Dividends on common shares	(7,038)	(12,048)
Dividends on preferred shares	(8,916)	(9,449)
Retained Earnings, End of Year	878,107	803,967
Accumulated Other Comprehensive Income (Loss), Beginning of Year	(2,828)	–
Transition adjustment on financial instruments[1]	356	(2,527)
Other comprehensive income (loss)	(2,249)	(301)
Accumulated Other Comprehensive Income (Loss), End of Year	(4,721)	(2,828)
Total Retained Earnings and Accumulated Other Comprehensive Income (Loss)	873,386	801,139
Total Shareholder's Equity	2,189,564	1,867,317

[1] The 2009 transition adjustment relates to the application of the EIC-173 (Note 2) and the 2008 transition relates to the implementation of CICA section 3855.

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31 ($ in thousands)

	2009	2008
Cash Flows Provided by Operating Activities		
Net income	90,567	84,563
Adjustments to determine net cash flows:		
Amortization of premiums and discounts on borrowings	18,977	10,375
Net unrealized (gains) losses on financial instruments	(59,768)	5,302
Provision for credit losses	222,848	101,482
Net realized losses on investments	30,922	43,504
Unrealized foreign exchange (gains) losses on investments	(34,788)	15,542
Unrealized (gains) losses on foreign exchange contracts	(1,168)	2,902
Change in unrealized depreciation on investments	79,768	34,754
Amortization of fixed assets	10,778	13,169
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	6,584	1,550
Change in accrued interest on borrowings	(21,175)	5,736
Net change in other assets and other liabilities	35,128	47,079
Net Cash Flows Provided by Operating Activities	378,673	365,958
Cash Flows Used in Investing Activities		
Maturities of securities	46,506	78,011
Disbursements for loans and subordinate financing investments	(2,808,111)	(2,880,580)
Repayments of loans and subordinate financing investments	1,599,963	1,907,687
Disbursements for venture capital investments	(87,242)	(129,682)
Proceeds on sales of venture capital investments	55,863	67,915
Acquisition of fixed assets	(6,699)	(7,558)
Net Cash Flows Used in Investing Activities	(1,199,720)	(964,207)
Cash Flows Provided by Financing Activities		
Net change in short-term notes	(3,212,020)	1,183,187
Issue of long-term notes	6,463,645	490,228
Repayment of long-term notes	(2,837,094)	(1,093,111)
Issue of common shares	250,000	–
Dividends paid on common and preferred shares	(16,487)	(21,482)
Net Cash Flows Provided by Financing Activities	648,044	558,822
Net Decrease in Cash and Cash Equivalents	(173,003)	(39,427)
Cash and Cash Equivalents at Beginning of Year	725,376	764,803
Cash and Cash Equivalents at End of Year (Note 4)	552,373	725,376
Supplemental Disclosure of Cash Flow Information		
Amount of interest paid in the year	200,421	364,406

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

($ in thousands except as otherwise indicated)

1 > ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament on July 13, 1995. BDC is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of BDC are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized enterprises, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. BDC offers Canadian companies services tailored to meet the current needs of small and medium-sized enterprises while earning an appropriate return on investment capital, which is used to further BDC's activities.

To finance these objectives, BDC borrows funds from Her Majesty in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC also issued debt instruments, which were secured by the Government of Canada. *The Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2009 and 2008.

BDC is for all purposes an agent of Her Majesty in Right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* (FAA) and is accountable for its affairs to Parliament through the Minister of Industry.

In September 2008, BDC, together with Canada Mortgage and Housing Corporation, Export Development Canada, the Canadian Commercial Corporation and Farm Credit Canada, was issued a directive (P.C. 2008-1598) pursuant to section 89 of the FAA. This directive ordered parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the government's policy to improve the accountability and integrity of federal institutions. BDC finalized its review of its policies and programs and has implemented the directive.

2 > SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for credit losses on loans, actuarial estimates of employee future benefits and fair values of financial instruments, including venture capital and subordinate financing investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these management judgements. The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized on the following pages.

BASIS OF CONSOLIDATION

BDC conducts business through a variety of corporate structures, including a wholly owned subsidiary and joint ventures. The subsidiary is used for investment purposes and all interests held by the subsidiary are recorded as investments at fair value as per accounting guideline 18 (AcG-18), *Investment Companies*. BDC also has direct interests in joint ventures. Joint ventures are those in which BDC exercises joint control through an agreement with third parties. All of the assets, liabilities, revenues and expenses of the wholly owned subsidiary, as well as BDC's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures held by BDC directly, are included in these Consolidated Financial Statements. All inter-company transactions and balances have been eliminated.

SIGNIFICANT ACCOUNTING CHANGES

On April 1, 2008, BDC adopted three new standards that were issued by the Canadian Institute of Chartered Accountants (CICA): section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, and section 3863, *Financial Instruments – Presentation*. BDC also implemented abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* issued by the Emerging Issues Committee (EIC) on January 20, 2009.

Financial Instruments – Disclosures and Presentation

Sections 3862 and 3863 replace section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Capital Disclosures

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

EIC-173 requires an entity to take into account its own credit risk and that of counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments. The fair value needs to be adjusted for factors that market participants would include in valuing instruments when a quoted risk does include a credit risk. In calculating the credit risk factor, credit service agreements have been taken into account as a credit enhancement.

This abstract is applied retrospectively without restatement of prior years. A negative transition adjustment of $473 was applied to opening retained earnings for derivative assets classified as held-for-trading and a positive transition adjustment of $356 was applied to accumulated other comprehensive income (AOCI) for derivative assets designated as cash flow hedges and available-for-sale assets.

The impact of EIC-173 implementation on fiscal 2009 results is: (i) an unrealized loss of $19.4 million recorded in net income for derivative assets classified as held-for-trading, and (ii) an unrealized loss of $0.5 million recorded in other comprehensive income (loss) (OCI) for derivative assets designated as cash flow hedges and available-for-sale assets.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

Other Comprehensive Income (loss)

OCI represents changes in shareholder's equity during a period arising from transactions and other events that include changes in unrealized gains and losses on financial assets classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. The Consolidated Financial Statements include a Consolidated Statement of Comprehensive Income which represents the net income for the year and the changes in these items while the cumulative changes in OCI are included in AOCI, which is presented as part of shareholder's equity on the Consolidated Balance Sheet.

Recognition and Measurement

The accounting standards for financial instruments require that financial assets and financial liabilities, including derivatives, be recognized on the Consolidated Balance Sheet when BDC becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. As per these standards, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified or designated as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Financial assets and financial liabilities classified or designated as held-for-trading are measured at fair value with changes in those fair values recognized in net income. Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recognized in OCI. Financial assets classified as loans and receivables, and other financial liabilities are measured at amortized cost.

Derivative instruments are recorded on the Consolidated Balance Sheet at fair value. Changes in the fair values of derivative instruments are recognized in net income except for derivatives designated as effective cash flow hedges for which the changes in fair value are recognized in OCI.

Transaction costs are expensed as incurred for all financial instruments. BDC accounts for all financial instruments using settlement date accounting.

Hedges

BDC uses derivative and non-derivative financial instruments in hedging strategies to manage exposures to interest, currency and other market risks. BDC determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge or a cash flow hedge.

Embedded derivatives

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments. As at March 31, 2009 and 2008, BDC has no hybrid instrument including embedded derivatives that should be separated from the host contract.

2 .

LOANS

Loans are classified as loans and receivables. They are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis, except for loans that are considered impaired.

Loans are considered impaired when there is deterioration in credit quality to the extent that BDC no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against Interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded either as interest income or as a reduction of the provision for credit losses.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in BDC's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the Balance Sheet date. The allowance is increased by an annual provision for credit losses, which is charged against income and is reduced by write-offs, net of recoveries. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely. The allowance for credit losses comprises specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent at the date of the impaired loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances, as well as subsequent changes thereto, are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the Balance Sheet date for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

INVESTMENTS

Venture capital and subordinate financing investments are measured and presented at fair value as per AcG-18, *Investment Companies*.

Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents management's best estimate of the net worth of an investment at the Balance Sheet date and may not reflect the ultimate realizable value upon the disposition of the investment.

Gains and losses on investments are recognized in income at the time of disposal or write-off. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. Changes in unrealized appreciation and depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the Balance Sheet date.

BDC's approach to fair value measurement has been derived from international guidelines. Based on the type of investments BDC carries out, BDC uses: (i) market-based methodologies, such as the quoted share price or the price of recent investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

FIXED ASSETS AND AMORTIZATION

Fixed assets are recorded at cost and amortized using the straight-line method over the estimated useful life of the asset as follows:

Computer and telecommunication equipment	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	6 years
Systems development costs	3 to 7 years

2 > Significant Accounting Policies (continued)

PREMIUMS AND DISCOUNTS ON BORROWINGS

Premiums and discounts on borrowings are amortized in interest expense over the life of the obligation using the effective interest rate method.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. With the exception of financial assets designated as available-for-sale, foreign exchange gains and losses are included in net income for the year. Foreign exchange gains and losses for financial assets designated as available-for-sale are included in OCI.

DERIVATIVE FINANCIAL INSTRUMENTS

BDC enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from Balance Sheet positions. BDC's policy is not to use derivative financial instruments for trading or speculative purposes.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps and forward foreign exchange contracts are used to manage exposure resulting from foreign currency-denominated borrowings, securities, loans and investments.

Derivatives not designated for hedge accounting are classified as held-for-trading and are measured at fair value with changes recorded in net income. Derivatives designated as cash flow hedges are measured at fair value with changes recorded in OCI. When hedge accounting is discontinued or if the hedged item is terminated earlier, the amounts previously recognized in AOCI are reclassified to Net income. Derivatives designated as fair value hedges are measured at fair value with changes recorded in Interest income.

BDC documents all hedge relationships and its risk management objectives, along with its strategy for carrying out the hedge transactions. This process includes linking these derivative instruments to assets and liabilities on the Consolidated Financial Statements. BDC assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items, both at inception and over the life of the hedge.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans, and other benefit plans such as post-employment benefits and post-retirement benefits for eligible employees.

The cost of pension and other employee future benefits earned by employees is determined annually on an actuarial basis using the projected benefit method, pro-rated on service and management's best estimate assumptions, such as the expected long-term rate of return on plan assets, discount rate, rate of compensation increase, inflation, retirement ages of employees and other factors.

The pension costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, and the amortization of net actuarial gains and losses, past service costs, and transitional assets and obligations. The market value of plan assets is used for the purpose of calculating the expected return on plan assets. The market value of plan assets is established as follows:

> short-term investments are valued at quoted market rates of return;

> bonds are valued at market rates; and

> public equity investments are valued at fair value based on published closing prices or based on bid and ask prices, if the instruments are not traded on the fair value evaluation date. Private equity funds of funds are carried at fair value as determined by each general partner.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

2 > Significant Accounting Policies (continued)

Each fiscal year, actuaries determine whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of BDC's active employees. Amounts that fall within the 10% corridor are not amortized. The average remaining service period of the active employees covered by

> the registered and supplemental pension plans is 8.1 years (8.1 years in 2008); and

> the post-retirement benefits plan other than pension is 8.0 years (8.0 years in 2008).

Amortization of transitional assets and obligations relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, BDC had transitional assets and obligations that have since been amortized to expense on a straight-line basis. The amortization was based on the average remaining service period of BDC's active employees in accordance with the benefit plans as of April 1, 2000. This period was 8.5 years for the registered pension plan and the supplemental pension plans. The transitional assets are fully amortized as of March 31, 2009.

The measurement date is December 31 for the pension plans and March 31 for the other benefit plans.

3 > FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal year beginning on or after January 1, 2011. Effective April 1, 2011, BDC will have to apply IFRS as a basis for financial reporting. BDC has begun planning its transition to IFRS, but the impact on the Consolidated Financial Statements has not yet been determined.

The CICA have published new standards, which should have no significant impact on the Consolidated Financial Statements.

4 > CASH AND CASH EQUIVALENTS

	2009	2008
Bank account balances, net of cheques outstanding	**(20,115)**	(15,368)
Short-term bank notes		
Available-for-sale	**500,113**	710,432
Held-for-trading	**72,375**	30,312
	572,488	740,744
Cash and cash equivalents	**552,373**	725,376

Cash equivalents include short-term bank notes that have maturities at the original acquisition date of less than 90 days. In order to have more flexibility to meet its corporate objectives, BDC has designated short-term bank notes as available-for-sale or held-for-trading.

AVAILABLE-FOR-SALE

Available-for-sale bank notes are measured at fair value with unrealized gains and losses recorded in OCI until these bank notes are sold. Gains and losses on disposal are recorded in net realized gains on financial instruments. Interest income earned on available-for-sale bank notes is recorded in Interest income using the effective rate method.

HELD-FOR-TRADING

Held-for-trading bank notes are notes that BDC purchases for resale over a short period of time. BDC records these bank notes at their market value and records the mark-to-market adjustments in net unrealized gains and losses on financial instruments, and any gains and losses on the sale of these bank notes in net realized gains on financial instruments. Interest income earned on held-for-trading cash equivalents is recorded in Interest income using the effective rate method.

The fair value of short-term bank notes is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using market prices of similar cash equivalents.

	2009	2008
Financial institutions		
Amortized cost	51,880	91,052
Gross unrealized gains	17	158
Fair value	51,897	91,210
Yield	1.61%	4.67%
Interest income from securities	2,033	5,437
Securities in foreign currencies		
Total in US dollars – amortized cost	–	15,400
Total in euros – amortized cost	31,000	31,000
Total in Canadian dollars	51,897	66,188

BDC holds securities for liquidity purposes based on policies approved by the board of directors. Section 18(3) of the BDC Act defines the nature of securities that can be held by BDC.

All securities are designated as available-for-sale. Available-for-sale securities are measured at fair value with unrealized gains and losses recorded in OCI until the security is sold. Gains and losses on disposal are recorded in net realized gains on financial instruments. Interest income earned on available-for-sale securities is recorded in Interest income using the effective rate method. Available-for-sale securities consist of debt securities that may be sold in response to or in anticipation of changes in counterparty credit risk evaluations, to meet liquidity needs or interest rate fluctuations.

All securities held as at March 31, 2009, were issued by Canadian entities at floating rates and have a maturity date within one year. Yields are based upon carrying values and contractual interest adjusted for amortization of premiums and discounts. The fair value is based on market quotes, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, BDC has entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and foreign exchange risks associated with the above securities. These swaps are designated as fair value hedges.

The following table summarizes loans outstanding as at March 31. Floating rate loans are classified based on their maturity date and fixed rate loans are classified based on the repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	Total net amount
Performing	414,910	2,823,506	7,362,559	10,600,975	(444,689)	–	(444,689)	10,156,286
Impaired	556	160,870	354,817	516,243	–	(220,356)	(220,356)	295,887
Loans as at March 31, 2009	**415,466**	**2,984,376**	**7,717,376**	**11,117,218**	**(444,689)**	**(220,356)**	**(665,045)**	**10,452,173**
Loans as at March 31, 2008*	572,355	2,904,962	6,536,797	10,014,114	(420,558)	(112,107)	(532,665)	9,481,449

* Includes $293,446 of impaired loans.

ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31.

	2009	2008
Balance at beginning of year	**532,665**	505,499
Write-offs and other	**(93,526)**	(76,031)
Interest income due to accretion	**(4,802)**	(4,398)
Recoveries	**7,860**	6,113
	442,197	431,183
Provision for credit losses	**222,848**	101,482
Balance at end of year	**665,045**	532,665

CREDIT RISK

The principal collaterals held as security and other credit enhancements for loans include: (i) various security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third parties loans; and (vi) assignments of lease.

As at March 31, 2009, $15.8 million ($9.4 million in 2008) of the impaired loans is secured by assets that BDC has the power to sell in order to satisfy borrower commitments.

The following table summarizes performing loans outstanding as at March 31 classified by client credit risk exposure.

Client credit risk exposure	2009		2008	
Low	**2,303,735**	**21.7%**	2,039,209	21.0%
Medium	**5,379,913**	**50.8%**	4,973,554	51.1%
High	**2,917,327**	**27.5%**	2,707,905	27.9%
Performing loans outstanding	**10,600,975**	**100.0%**	9,720,668	100.0%

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than three months past due, secured, or collection efforts are reasonably expected to result in repayment.

Loans Past Due but Not Impaired	Within 1 month	2 to 3 months	Over 3 months	Total
As at March 31, 2009	**112,677**	**29,523**	**8,694**	**150,894**
As at March 31, 2008	116,079	34,504	8,040	158,623

6 > Loans (continued)

The concentrations of the total loans outstanding by province and territory, and by industry sector, as at March 31 are set out in the tables below. The largest concentration in one individual or closely related group of clients is less than 1% (less than 1% in 2008).

Geographic Distribution	2009		2008	
Newfoundland and Labrador	430,604	3.9%	388,073	3.9%
Prince Edward Island	43,745	0.4%	49,626	0.5%
Nova Scotia	301,168	2.7%	256,558	2.6%
New Brunswick	451,209	4.1%	413,277	4.1%
Quebec	3,799,220	34.2%	3,625,688	36.2%
Ontario	3,454,883	31.1%	3,146,308	31.4%
Manitoba	246,563	2.2%	230,586	2.3%
Saskatchewan	203,836	1.8%	168,877	1.7%
Alberta	1,023,516	9.2%	785,853	7.8%
British Columbia	1,080,418	9.7%	884,091	8.8%
Yukon	54,615	0.5%	40,368	0.4%
Northwest Territories and Nunavut	27,441	0.2%	24,809	0.3%
Total loans outstanding	11,117,218	100.0%	10,014,114	100.0%

Industry Sector	2009		2008	
Manufacturing	3,569,991	32.1%	3,373,957	33.7%
Wholesale and retail trade	2,418,757	21.8%	2,154,678	21.5%
Tourism	1,327,463	11.9%	1,167,434	11.7%
Construction	713,490	6.4%	597,948	6.0%
Transportation and storage	584,273	5.3%	531,452	5.3%
Commercial properties	589,090	5.3%	473,171	4.7%
Business services	514,089	4.6%	446,561	4.4%
Other	1,400,065	12.6%	1,268,913	12.7%
Total loans outstanding	11,117,218	100.0%	10,014,114	100.0%

7 > SUBORDINATE FINANCING LOANS AND INVESTMENTS

BDC maintains a medium- to high-risk portfolio of subordinate financing loans and investments. The following table summarizes subordinate financing loans and investments outstanding as at March 31. Floating rate loans and investments are classified based on their maturity date, and fixed rate loans and investments are classified based on their repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation - and other	Total net amount
As at March 31, 2009						
Loans	**4,225**	**1,083**	**–**	**5,308**	**(1,969)**	**3,339**
Investments	**13,232**	**126,416**	**19,076**	**158,724**	**(6,993)**	**151,731**
Total	**17,457**	**127,499**	**19,076**	**164,032**	**(8,962)**	**155,070**
As at March 31, 2008						
Loans	8,384	4,464	–	12,848	(2,597)	10,251
Investments	8,577	127,028	16,490	152,095	(6,188)	145,907
Total	16,961	131,492	16,490	164,943	(8,785)	156,158

The principal collaterals held as security and other credit enhancements for loans and investments include: (i) various security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third parties loans; (vi) assignments of lease; and (vii) hypothecation of shares and warrants.

The concentrations of the total loans and investments outstanding by geographic distribution as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is 3.1% (3.0% in 2008).

Geographic Distribution		**2009**		2008
Newfoundland and Labrador	**6,314**	**3.9%**	5,212	3.2%
Prince Edward Island	**379**	**0.2%**	390	0.2%
Nova Scotia	**3,001**	**1.8%**	1,813	1.1%
New Brunswick	**2,935**	**1.8%**	1,817	1.1%
Quebec	**89,238**	**54.4%**	89,263	54.2%
Ontario	**36,818**	**22.5%**	38,822	23.5%
Manitoba	**2,173**	**1.3%**	3,028	1.8%
Saskatchewan	**337**	**0.2%**	338	0.2%
Alberta	**15,263**	**9.3%**	15,132	9.2%
British Columbia	**7,574**	**4.6%**	8,978	5.4%
Michigan (USA)	**–**	**–**	150	0.1%
Total loans and investment outstanding	**164,032**	**100.0%**	164,943	100.0%

7 > Subordinate Financing Loans and Investments (continued)

BDC holds a portfolio of subordinate financing investments through its joint ventures with the Caisse de dépôt et placement du Québec. BDC acts as the general partner of the limited partnerships: (i) AlterInvest Fund L.P.; (ii) AlterInvest II Fund L.P.; and (iii) AlterInvest Investment Fund Inc.

The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2009	2008
Current assets	3,402	14,843
Subordinate financing investments	151,731	145,907
Current liabilities	325	255
Net interest income	17,743	15,655
Realized (losses) gains on investments and other income	(1,192)	1,823
Change in unrealized depreciation of investments	(3,165)	(53)
Operating and administrative expenses	95	85
Income from subordinate financing investments	13,291	17,340
Cash flows provided by (used in):		
Operating activities	16,509	15,926
Investing activities	(15,614)	(27,379)
Financing activities	(12,357)	20,811

[illegible]

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 2.2% of total venture capital investments at cost (2.0% in 2008).

		2009		2008
Industry Sector	Fair value	Cost	Fair value	Cost
Biotechnology, medical and health	117,807	195,890	145,281	184,376
Information technology	102,697	135,702	101,710	121,733
Electronics	94,410	98,716	70,144	86,246
Communications	56,657	85,052	91,124	108,902
Industrial	17,246	20,914	17,176	21,185
Other	583	1,155	5,772	2,200
Total direct investments	389,400	537,429	431,207	524,642
Funds	52,231	71,230	44,778	76,793
Venture Capital Investments	441,631	608,659	475,985	601,435

The following table presents a summary of the venture capital portfolio by type of investment.

		2009		2008
Investment Type	Fair value	Cost	Fair value	Cost
Common shares	38,340	91,377	57,964	92,134
Preferred shares	311,016	382,942	322,978	375,497
Debentures	40,044	63,110	50,265	57,011
Funds	52,231	71,230	44,778	76,793
Venture Capital Investments	441,631	608,659	475,985	601,435

9 > Fixed Assets

	Cost	Accumulated amortization	Carrying value
Computer and telecommunication equipment	35,729	31,957	3,772
Furniture, fixtures and equipment	44,315	40,157	4,158
Leasehold improvements	49,095	41,646	7,449
Systems development costs	41,419	32,606	8,813
Total 2009	**170,558**	**146,366**	**24,192**
Total 2008	164,181	135,910	28,271

10 > Other Assets

	2009	2008
Accrued benefit asset (Note 21)	136,119	115,844
Future margin receivable[1]	54,381	111,831
Other	23,587	30,560
	214,087	258,235

[1] Represents contractual cash flows to be received on the termination date of certain derivative financial instruments.

11 > Borrowings

Short-term notes other than cash collateral received from counterparties, are measured at amortized cost. From time to time, BDC requests cash collateral from its counterparties when they exceed their limits under signed *International Swaps and Derivatives Association* agreements. These transactions are recorded as short-term notes, designated as held-for-trading and measured at fair value with unrealized gains and losses recorded in Net unrealized gains (losses) on financial instruments. The table below presents the outstanding notes as at March 31.

			2009		2008	
Maturity Date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-Term Notes/Amortized Cost						
2009	1.53 % – 4.73 %	USD	–	–	682,205	697,306
		CAD	–	–	4,486,704	4,469,923
2010	0.28 % – 0.86 %	CAD	1,915,000	1,914,621	–	–
				1,914,621		5,167,229
Short-Term Notes/Held-for-Trading						
2009	2.39 %	USD	–	–	29,600	30,362
2010	0.04 %	USD	51,550	65,030	–	–
	0.52 %	CAD	4,350	4,350	–	–
				69,380		30,362
Total Short-Term Notes				1,984,001		5,197,591

Unstructured long-term notes are recorded at amortized cost. Structured notes have been designated as held-for-trading as they are associated with derivatives classified as held-for-trading. They are recorded at fair value with unrealized gains or losses recorded in Net unrealized gains (losses) on financial instruments. There is no liquid market for these structured notes and their fair values are determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating the fair value.

					2009		2008
Maturity Date	2009 Effective rate*	2008 Effective rate*	Currency	Principal amount	Carrying value	Principal amount	Carrying value
Long-Term Notes/Amortized Cost							
2010	0.28 % – 4.75 %	4.75 %	CAD	1,588,000	1,587,981	100,000	100,000
2011	0.26 % – 4.75 %	4.75 %	CAD	2,284,000	2,283,845	100,000	100,000
2012	0.31 % – 4.75 %	4.75 %	CAD	705,000	705,000	100,000	100,000
2013	0.28 % – 3.43 %		CAD	717,000	717,000	–	–
2014	0.31 % – 3.51 %		CAD	310,000	310,000	–	–
2015	3.52 % – 3.54 %		CAD	20,000	20,000	–	–
2016	3.38 % – 3.47 %		CAD	45,000	45,000	–	–
					5,668,826		300,000
Long-Term Notes/Held-for-Trading							
2009		3.51 %	USD	–	–	43,000	42,950
		3.16 % – 4.26 %	CAD	–	–	479,896	513,893
2010	0.42 %	3.34 % – 3.39 %	USD	15,000	18,853	20,000	20,071
	0.20 % – 0.58 %	3.31 % – 4.17 %	CAD	178,178	201,871	177,822	224,342
2011	0.37 %	3.21 % – 3.33 %	USD	10,000	12,440	17,000	17,687
	0.20 % – 0.55 %	3.16 % – 3.57 %	CAD	135,203	137,225	248,155	252,639
2012		3.33 %	JPY	–	–	500,000	5,146
	0.20 % – 0.26 %	3.16 % – 3.41 %	CAD	115,820	142,703	181,832	215,400
2013	0.38 %	3.34 % – 3.37 %	CAD	5,000	6,126	15,000	18,053
2014		3.37 %	JPY	–	–	1,000,000	10,159
	0.41 %	3.33 % – 3.51 %	USD	5,800	7,302	37,600	37,871
	0.36 % – 0.55 %	3.31 % – 3.56 %	CAD	99,748	99,663	105,890	110,327
2015	0.38 %	3.33 % – 3.56 %	JPY	500,000	8,598	3,000,000	31,511
		3.37 % – 3.53 %	USD	–	–	30,000	30,893
	0.36 % – 0.55 %	3.31 % – 3.56 %	CAD	126,528	116,652	127,255	119,021
2016	0.38 % – 0.41 %	3.33 % – 3.39 %	JPY	2,000,000	25,299	7,500,000	76,509
		3.38 %	USD	–	–	30,000	30,878
	0.35 %	3.31 %	CAD	20,387	22,464	20,982	22,005
2017	0.38 % – 0.41 %	3.33 % – 3.39 %	JPY	3,700,000	43,855	3,700,000	36,140
	0.34 % – 0.43 %	3.30 % – 3.38 %	USD	43,000	52,967	43,000	43,314
2018	0.41 % – 0.52 %	3.35 % – 3.59 %	JPY	12,500,000	153,202	31,200,000	311,644
2019	0.36 % – 0.43 %	3.32 % – 3.61 %	JPY	13,800,000	169,150	24,700,000	242,526
		3.38 %	USD	–	–	25,456	26,567
2020	0.36 % – 0.51 %	3.32 % – 3.63 %	JPY	17,600,000	204,100	19,600,000	187,697
2021	0.35 % – 0.42 %	3.30 % – 3.60 %	JPY	11,560,000	135,779	14,960,000	144,639
2022	0.39 % – 0.42 %	3.34 % – 3.63 %	JPY	1,900,000	23,114	2,400,000	23,823
	0.30 % – 4.31 %	3.26 % – 4.31 %	CAD	292,601	317,906	600,000	626,765
2023	0.00 % – 0.44 %	2.86 % – 3.63 %	JPY	6,800,000	76,897	6,800,000	65,588
					1,976,166		3,488,058
Total Long-Term Notes					7,644,992		3,788,058

* The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed rate issues and yield to reset for floating rate issues.

The preceding table includes $1,970,089 in 2009 ($3,482,058 in 2008) of long-term notes payable that have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions.

11 > Borrowings (continued)

The maturity dates for extendable notes are presented based on their first option date. BDC has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Some notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by BDC or the note holders. The types of notes included in the previous table are as follows.

	2009	2008
Interest-bearing notes	**6,067,862**	1,206,853
Fixed and inverse floating rate notes	**330,751**	708,717
Managed futures	**280,109**	540,573
Notes linked to equity indices	**186,964**	320,493
Notes linked to currency rates	**293,583**	259,364
Notes linked to swap rates	**108,858**	120,142
Notes extendible beyond maturity	**11,501**	129,852
Other structured notes	**365,364**	502,064
	7,644,992	3,788,058

Long-term notes of $904,705 are redeemable prior to maturity ($1,648,278 as at March 31, 2008).

As at March 31, 2009, the payment requirements and maturities of long-term notes are as follows.

2010	**1,787,489**
2011	**2,433,963**
2012	**820,820**
2013	**722,000**
2014	**417,463**
2015 and later	**1,360,769**
	7,542,504

BDC has an available overdraft facility of $75 million. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2009, BDC is not in an overdraft position.

12 > OTHER LIABILITIES

	2009	2008
Accrued benefit liability (Note 21)	**109,935**	107,932
Other	**31,021**	41,216
	140,956	149,148

[illegible]

SHARE CAPITAL

Authorized:

(a) an unlimited number of preferred shares without par value, non-voting, issuable in series; and
(b) an unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding			2009			2008
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares						
Class A – Series 1	500,000	50,000	3.535 %	500,000	50,000	3.535 %
– Series 2	500,000	50,000	4.455 %	500,000	50,000	4.455 %
– Series 3	500,000	50,000	3.965 %	500,000	50,000	3.965 %
– Series 4	400,000	40,000	4.130 %	400,000	40,000	4.130 %
– Series 5	400,000	40,000	3.230 %	400,000	40,000	3.230 %
		230,000			230,000	
Common shares	10,584,000	1,058,400		8,084,000	808,400	
Total Outstanding Share Capital		1,288,400			1,038,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A Preferred share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day to day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

STATUTORY LIMITATIONS

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings (as shown in the Consolidated Balance Sheet) and contingent liabilities of BDC in the form of guarantees related to financial services over the total shareholder's equity, which excludes AOCI. BDC's ratio at March 31, 2009 was 4.4:1 (4.8:1 as at March 31, 2008).

In addition, the paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $3.0 billion. This maximum represents an increase of $1.5 billion compared to fiscal 2008, as a result of the 2009 federal budget. At March 31, 2009, these amounts totalled $1.316 billion ($1.066 billion as at March 31, 2008). This increase results from the issuance of 2.5 million additional common shares for a total amount received of $250 million.

13 > Share Capital and Statutory Limitations (continued)

CAPITAL ADEQUACY

Treasury Board of Canada, Secretariat provides BDC with capital adequacy ratios. BDC must maintain capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. Adequate capital ratios reflect the relative risk of BDC's assets. The required capital is at least 10% of net value for term loans; 25% for quasi-equity loans (including subordinate financing); and 100% for venture capital investments. During the year, BDC operated in accordance with its capital adequacy guidelines. The following table presents the minimum capital required as at March 31.

			2009			2008
	Carrying value	Minimum capital ratio	Minimum capital required	Carrying value	Minimum capital ratio	Minimum capital required
Loans						
Term loans	9,837,599	10 : 1	983,760	8,938,783	10 : 1	893,878
Quasi-equity	614,574	4 : 1	153,644	542,666	4 : 1	135,667
Total loans, net of allowance for credit losses	10,452,173		1,137,404	9,481,449		1,029,545
Subordinate Financing	155,070	4 : 1	38,768	156,158	4 : 1	39,040
Venture Capital	441,631	1 : 1	441,631	475,985	1 : 1	475,985
Total	11,048,874		1,617,803	10,113,592		1,544,570
Actual Capital*			2,194,285			1,870,145

* The actual capital excludes AOCI (($4,721) in 2009 and($2,828) in 2008).

14 > INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME

	2009	2008
Interest Income		
Financing	743,384	844,542
Subordinate financing	18,760	18,446
Venture capital	473	6,901
	762,617	869,889
Interest Expense		
Interest on notes	135,614	198,607
Interest on swaps	70,722	169,300
Other	1,614	2,235
	207,950	370,142
Net Realized Gains (Losses) on Financial Instruments		
Designated as held-for-trading	(17,974)	–
Classified as held-for-trading	48,723	–
Other	(1,768)	–
	28,981	–
Net Unrealized Gains (Losses) on Financial Instruments		
Designated as held-for-trading	(24,056)	–
Classified as held-for-trading	83,824	(5,302)
	59,768	(5,302)
Amortization of Premiums and Discounts on Borrowings	18,977	10,375
Amortization of Fixed Assets	10,778	13,169

[illegible] ADMINISTRATIVE EXPENSES

	2009				2008			
	Financing	Subordinate Financing	Venture Capital	Consulting	Financing	Subordinate Financing	Venture Capital	Consulting
Salaries and benefits	153,795	9,886	9,157	15,339	156,231	10,511	8,945	14,964
Premises and equipment	31,606	712	1,555	984	33,075	687	1,482	987
Other expenses	63,315	1,271	2,568	14,042	55,546	1,241	2,364	13,372
	248,716	11,869	13,280	30,365	244,852	12,439	12,791	29,323

16. [illegible] VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of financial instruments held or issued by BDC using the valuation methods and assumptions as described further. The estimated fair values represent approximate amounts at which the instruments could be exchanged between knowledgeable, willing parties in an arm's-length transaction. However, many of the financial instruments lack an available trading market. Therefore, in these cases, fair values are estimated using present value and other valuation techniques that are significantly affected by the assumptions used. As such, the fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

	2009			2008		
	Fair value	Carrying value	Fair value over carrying value	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	552,373	552,373	–	725,376	725,376	–
Securities	51,897	51,897	–	91,210	91,210	–
Loans, net of allowance for credit losses	10,539,817	10,452,173	87,644	9,488,625	9,481,449	7,176
Subordinate financing loans and investments	155,070	155,070	–	156,158	156,158	–
Venture capital investments	441,631	441,631	–	475,985	475,985	–
Derivative assets	199,488	199,488	–	206,882	206,882	–
Other assets	77,430	77,430	–	141,543	141,543	–
	12,017,706	11,930,062	87,644	11,285,779	11,278,603	7,176
Liabilities						
Accounts payable and accrued liabilities	66,752	66,752	–	65,503	65,503	–
Accrued interest on borrowings	12,969	12,969	–	34,144	34,144	–
Short-term notes	1,984,001	1,984,001	–	5,197,591	5,197,591	–
Long-term notes	7,683,216	7,644,992	38,224	3,797,143	3,788,058	9,085
Derivative liabilities	51,677	51,677	–	321,805	321,805	–
Other liabilities	22,721	22,721	–	31,329	31,329	–
	9,821,336	9,783,112	38,224	9,447,515	9,438,430	9,085
Total			49,420			(1,909)

16 > Fair Value of Financial Instruments (continued)

Fair values are based on a range of valuation methods and assumptions, as follows.

Financial instruments valued at carrying value: The estimated fair value of the following assets and liabilities is assumed to approximate carrying value, as the items are short-term in nature:

> cash, designated as held-for-trading;

> other assets, classified as loans and receivables;

> accounts payable and accrued liabilities, recorded at amortized cost;

> accrued interest on borrowings, recorded at amortized cost;

> short-term notes (refer to Note 11); and

> other liabilities, recorded at amortized cost.

Cash equivalents: The basis used to estimate the fair value of cash equivalents is provided in Note 4.

Securities: The basis used to estimate the fair value of securities is provided in Note 5.

Loans: For performing floating rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under "*Allowance for credit losses*".

Subordinate financing and venture capital investments: Note 2 describes the fair value methods used by BDC.

Long-term notes: The basis used to estimate the fair value of structured long-term notes is provided in Note 11. Fair value of unstructured long-term notes is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar notes.

Derivative financial instruments: The basis used to estimate the fair value of derivative financial instruments is provided in Note 18.

17 > RISK MANAGEMENT

GOVERNANCE

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework based on its financial autonomy and on its obligation to be commercially viable.

Under the ERM framework, credit, market and liquidity risks have been identified, defined and managed. The management of these risks is accomplished through the development and communication of policies, the establishment of formal risk reviews and approval processes and establishment of limits and delegation of authorities.

BDC's ERM policy codifies the integrated, enterprise-wide process by which BDC identifies, assesses, measures, manages and reports risk concerns, events, exposures and potential opportunities. ERM framework assists BDC to be methodical and consistent in its planning, decision-making and operations. It prevents the Bank from managing risk in an uncoordinated or piecemeal way.

ERM is surveyed by the board of directors or its committees. In each line of business, management ensures that governance activities, controls and management processes and procedures are consistent with BDC's ERM framework.

BDC's overall risk governance structure as well as roles and responsabilities of risk groups and committees are described in the Risk Management section of this annual report (p. 29).

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

BDC is exposed to the following risks: credit risk, market risk and liquidity risk. The following provides definitions of these risks and describes BDC's risk management policies and risk measurements.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to BDC. For the purposes of credit risk activities, BDC distinguishes between credit risk arising from borrower or investee, from a counterparty with whom BDC does business or from an issuer of securities and bank notes.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and investments in debentures. BDC uses a number of principles to manage credit exposures from borrowers or investees, which include:

- the exposure to a single borrower or associated borrowers limited, unless approved by the board of directors, to not more than 10% of the shareholder's equity;
- a standardized credit risk rating classification that is established for all credits;
- concentration limits that are monitored to protect against being overly concentrated in any one province or industry sector;
- annual reviews of individual credit facilities;
- the pricing of credits commensurate with risk to ensure an appropriate financial return;
- credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensures early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
- independent reviews of credit valuation, risk classification and credit management procedures performed by Internal Audit, which includes reporting the results to senior management, the president and chief executive officer and the Audit Committee;
- a watch list report, recording accounts with evidence of weakness as well as an impaired loan report covering loans that show impairment to the point where a loss is possible; and
- for larger transactions, the Credit Risk Committee makes recommendations to the Credit/Investment and Risk Committee of the board of directors for approval.

Refer to Note 6 *Loans*, Note 7 *Subordinate Financing Loans and Investments* and Note 8 *Venture Capital Investments* for additional information on loans and investments porfolios.

In order to mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to derivative counterparties and issuers of securities and bank notes.

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the gross asset values of transactions that are in an unrealized gain position.

BDC limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. BDC's overall exposure to credit risk on derivative instruments can quickly change substantially, since it is affected by each transaction subject to the arrangement.

17 > Risk Management (continued)

Counterparty Credit Risk Exposure	Counterparty ratings			
	AAA	AA – to AA+	A to A+	Total
Gross Positive Replacement Cost	58	87,079	112,351	199,488
Impact of Master Netting Agreements	–	(17,320)	(25,332)	(42,652)
Replacement Cost (After Master Netting Agreements) – 2009	58	69,759	87,019	156,836
Replacement cost (after master netting agreements) – 2008	–	28,085	55,030	83,115
Number of Counterparties				
March 31, 2009	1	10	8	19
March 31, 2008	–	10	3	13

Finally to manage the credit risk arising from an issuer of securities and bank notes, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have acceptable credit ratings.

Market Risk

Market risk for BDC is the impact on the fair value or future cash flows of a financial instrument that will fluctuate as a result of changes in financial market variables, such as foreign exchange rates and interest rates. Market risk for BDC also arises from unpredictable venture capital financial markets.

Interest rate risk

Interest rate risk is defined as the impact on Net interest income, both current and future, resulting from a change in market interest rates. As per the Treasury Board Guidelines, BDC can only be exposed to Canadian fixed and floating interest rates. BDC uses derivatives to eliminate exposure to interest rates in foreign markets and equity, commodity or indice fluctuations.

Therefore, the risk and potential variability in earnings arises primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in Net interest income when market interest rates rise since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall.

To manage interest rate risk, BDC establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's situation and decide future strategies in light of changing market conditions. The objective is to manage the interest rate risk within sound and prudent guidelines. Interest rate risk policies are approved and reviewed at least annually by the board of directors, with quarterly reporting of the gap position to the Board.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of Net interest income sensitivity for periods of up to one year. The interest rate gap is measured daily. Note 19, *Interest rate sensitivity* shows the gap position as of March 31, 2009 (with comparatives for fiscal 2008) for select time intervals. The gap analysis in Note 19 is a static measurement of interest-rate sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates as well as the size and maturity structure of the cumulative interest rate gap position and management of that position over time.

Exposure to interest rate risk is monitored with a net interest income sensitivity stress test. A parallel and sustainable 200 basis points shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. As at March 31, 2009, it is 4% (2% in 2008).

Foreign exchange risk
Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. The Treasury Board Guidelines directives require transactions in foreign currencies to be converted into Canadian dollars. Foreign exchange forward contracts are used to economically hedge foreign currency borrowings, loans and venture capital investments. Refer to Note 18 *Derivative Financial Instruments* for more information.

Venture capital market risk
The vagaries of financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestments. This timing, in turn, affects the value of BDC venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. Because market risk is due to external events beyond BDC's control, financial instruments are used to keep risk exposure within approved limits. BDC also lowers the risk of its venture capital investments by applying conservative company acquisition valuations, co-investing with other venture capital investors and monitoring investments regularly.

The Internal Venture Capital Committee, composed of senior managers, reviews all investment transactions and approves those within its delegated limits. For larger transactions, this committee makes recommendations to the Credit/Investment and Risk Committee of the Board for approval.

Liquidity risk
Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due. Contractual payments for BDC represent: (i) repayment of debt; (ii) timely disbursement of committed loans; and (iii) payments of dividends and operating and administrative expenses.

A lack of marketability could make it expensive or even impossible to liquidate the securities held in the investment portfolios, which could also compromise the short-term continuity of normal business. To avoid any business disruptions, BDC ensures that cash is invested in highly liquid and high quality securities, with active secondary markets that can be sold to a wide range of counterparties without incurring a substantial discount.

BDC's liquidity risk management objective is to mitigate this risk by:

- providing for a minimum level of short-term assets over short-term liabilities to cover commitment risk;
- providing for a maximum level of short-term assets over short-term liabilities to cover market/systemic and operational risks;
- minimizing the unproductive cash balance in the cash account; and
- achieving a return in excess of cost.

The liquidity risk management policy is reviewed and approved annually by the Asset-Liability Committee (ALCO) and the board of directors. The policy establishes risk tolerance parameters and provides delegation of authority to the BDC's Treasury Department to transact in approved products and limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements and defines liquidity limits.

Paragraph 18(3) of the BDC Act restricts the BDC from investing in certain types of instruments. In addition, BDC can invest in other securities that are approved by the Minister of Finance.

17 > Risk Management (continued)

While aiming to minimize the unproductive cash balance and to achieve a return in excess of its cost, capital protection of liquid assets remains the priority. BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements.

> The minimum liquidity level, which is the value of short-term assets over the value of short-term liabilities, covers at least the net outflows scheduled for the next five working days (seven working days in fiscal 2008). The maximum liquidity level is not to exceed 15 days of net cash outflows.

> The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.

> The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces (new in fiscal 2009).

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from the Liquidity Risk Management Policy to the ALCO and the board of directors. The Treasury Risk Management Unit determines if they remain valid or changes to assumptions and limits are required in light of internal or external developments. This process ensures that a close link is maintained between liquidity, market and credit risk.

The cash or securities received from derivatives counterparties to cover credit risk exposure as per the *International Swap and Derivatives Association* agreements are not included in the liquidity level/limits. As of March 31, 2009, the carrying amount of these collaterals is $69,380 ($30,362 in 2008). Refer to Note 11 *Borrowings* for additionnal information on collaterals held by BDC.

Liquidity level ($ in millions)	Minimum*	Actual	Maximum
As at March, 2009	**527**	**550**	**1,209**
As at March, 2008	323	807	1,455

Maturity and concentration limits	2009		2008	
	Limits	Actual	Limits	Actual
Investments with maturities < 100 days	**Min 75%**	**91%**	Min 75%	91%
Canadian provinces	**Max 50%**	**0%**	N/A	N/A

* Liquidity limits were revised in fiscal 2009 (7 to 5 working days from fiscal 2008 to fiscal 2009) to take into consideration the results of the Crown Borrowing Program (Note 22).

10 > DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equity investments, indices, commodity prices or other financial measures.

SWAPS

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC enters into are as follows:

> *interest rate swaps*, which involve exchange of fixed and floating rate interest payments;

> *cross-currency interest rate swaps*, which involve the exchange of both interest and notional amounts in two different currencies;

> *equity-linked swaps*, where one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates; and

> *commodity swaps*, where one counterparty exchanges fixed or floating rate payments based on the notional value of a commodity.

The main risk associated with these instruments is related to movements in interest rates, foreign exchange, equity and commodity prices, and exposure to counterparty credit risk.

FORWARDS AND FUTURES

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts, and from movements in interest rates and foreign exchange rates.

In compliance with BDC's Treasury Risk Policy and the Treasury Board Guidelines, BDC transacts in derivative financial instruments to mitigate its foreign exchange and interest rate risk.

FOREIGN EXCHANGE RATE RISK

During the year, BDC managed the foreign exchange rate risk of its available-for-sale short-term borrowings through forward contracts. These foreign exchange forward agreements were designated as cash flow hedging instruments and were marked-to-market with changes in fair value in OCI.

In addition, BDC uses cross-currency swaps to economically hedge its long-term borrowings against foreign exchange rate risk. These swaps are classified as held-for-trading and changes in fair value are recorded in Net unrealized gains and losses on financial instruments.

BDC also uses foreign exchange forward contracts to have an economic hedge for its securities, loans and investments in foreign currencies. These contracts are classified as held-for-trading and are marked-to-market in net income.

INTEREST RATE RISK

BDC enters into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. These contracts have been designated as cash flow hedging instruments. The effective portion of the hedge is recorded in OCI and the ineffective portion of the hedge is recorded in net interest income.

BDC also uses derivative financial instruments that have an economic hedge for its structured notes. These instruments include interest rate, cross currency and equity-linked swaps. These instruments have been classified as held-for-trading and the changes in fair value of these transactions are recorded in Net unrealized gains and losses on financial instruments.

18 > Derivative Financial Instrume (continued)

The following table provides the fair value of BDC's derivatives portfolio as at March 31 as presented by gross assets and gross liabilities values.

			2009			2008
	Gross assets	Gross liabilities	Net amount	Gross assets	Gross liabilities	Net amount
Hedging						
Interest rate swap contracts	2,913	8,630	(5,717)	415	4,066	(3,651)
Cross-currency interest rate swap contracts	–	2,210	(2,210)	5,665	423	5,242
Currency forward contracts	–	–	–	20,514	85	20,429
Total Hedging	2,913	10,840	(7,927)	26,594	4,574	22,020
Held-for-Trading						
Interest rate swap contracts	66,083	17,976	48,107	34,583	9,905	24,678
Equity-linked swap contracts	61,002	7,692	53,310	137,741	25,539	112,202
Cross-currency interest rate swap contracts and other	68,455	14,563	53,892	7,953	279,389	(271,436)
Currency forward contracts and Futures	1,035	606	429	11	2,398	(2,387)
Total Held-for-Trading	196,575	40,837	155,738	180,288	317,231	(136,943)
Total	199,488	51,677	147,811	206,882	321,805	(114,923)

The fair value is an estimated price at a point in time that would be agreed upon in the marketplace, subject to the conditions that the prospective buyers and sellers are reasonably knowledgeable about the asset, and they are behaving in their own best interests and are free of undue pressure to trade.

All BDC derivatives are over-the-counter derivatives. The fair value of these derivatives is determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating fair value. The valuation takes into account the market factors of the underlying note.

18 > Derivative Financial Instruments (continued)

The following table summarizes the notional amount, by term to maturity or repricing date, of derivative instruments. Notional amounts are not recorded as assets or liabilities on the balance sheet as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

	Term to maturity or repricing				**2009**	2008
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Notional amount**	Notional amount
Hedging						
Interest Rate Swap Contracts						
$CDN payable-fixed	–	100,000	–	–	**100,000**	100,000
% payable-fixed		*4.50*				
$CDN receivable-fixed	–	–	40,000	–	**40,000**	125,000
% receivable-fixed			*3.14*			
	–	100,000	40,000	–	**140,000**	225,000
Cross-Currency Interest Rate Swap Contracts	49,760	–	–	–	**49,760**	71,260
Total	49,760	100,000	40,000	–	**189,760**	296,260
Currency Forward Contracts	–	–	–	–	**–**	680,284
Total Hedging	49,760	100,000	40,000	–	**189,760**	976,544
Held-for-Trading						
Interest Rate Swap Contracts						
$CDN payable-fixed	–	–	–	110,000	**110,000**	383,027
% payable-fixed				*4.23*		
$CDN receivable-fixed	10,000	–	27,748	333,867	**371,615**	1,044,686
% receivable-fixed	*4.76*		*3.98*	*4.58*		
Basis swap	–	–	–	–	**–**	3,507,000
Other swap contracts	–	–	7,714	3,999	**11,713**	78,663
Equity-Linked Swap Contracts	288,050	358,954	77,000	105,650	**829,654**	1,411,575
	298,050	358,954	112,462	553,516	**1,322,982**	6,424,951
Cross-Currency Interest Rate Swap Contracts	22,297	14,760	7,714	934,551	**979,322**	1,741,064
Total	320,347	373,714	120,176	1,488,067	**2,302,304**	8,166,015
Currency Forward Contracts	190,404	–	–	–	**190,404**	136,306
Total Held-for-Trading	510,751	373,714	120,176	1,488,067	**2,492,708**	8,302,321
Total	560,511	473,714	160,176	1,488,067	**2,682,468**	9,278,865

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivatives contracts.

19 > INTEREST RATE SENSITIVITY

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity dates. The effective yield represents the weighted average effective yield based on the earlier of contractual repricing and maturity date.

CANADIAN DOLLAR TRANSACTIONS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value adjustment	Total
Assets								
Cash and cash equivalents	(21,355)	507,460	–	–	–	–	–	486,105
Effective yield (%)		*0.56*						
Securities	–	–	–	–	–	–	–	–
Effective yield (%)								
Loans, net of allowance for credit losses	7,768,730	129,415	245,542	1,784,801	664,615	516,242	(664,372)	10,444,973
Effective yield (%)	*4.78*	*7.82*	*7.62*	*7.66*	*7.09*			
Subordinate financing loans and investments	7,374	2,748	8,340	110,890	7,818	26,489	(8,947)	154,712
Effective yield[(1)] (%)	*9.79*	*10.65*	*12.38*	*12.46*	*12.92*			
Venture capital investments	–	–	–	–	–	276,899	–	276,899
Derivative assets	–	113,138	13,943	2,913	–	–	–	129,994
Other	–	–	–	–	–	238,279	–	238,279
	7,754,749	752,761	267,825	1,898,604	672,433	1,057,909	(673,319)	11,730,962
Liabilities and Shareholder's equity								
Short-term notes	–	1,918,971	–	–	–	–	–	1,918,971
Effective yield (%)		*0.43*						
Long-term notes	–	4,946,482	38,000	666,706	428,175	634,072	–	6,713,435
Effective yield (%)		*0.44*	*2.71*	*3.36*	*1.95*	*0.34*		
Derivative liabilities	–	10,771	–	8,630	16,914	–	–	36,315
Other	–	–	–	–	–	220,677	–	220,677
Shareholder's equity	–	–	–	–	–	2,189,564	–	2,189,564
	–	6,876,224	38,000	675,336	445,089	3,044,313	–	11,078,962
Total Balance Sheet gap 2009	**7,754,749**	**(6,123,463)**	**229,825**	**1,223,268**	**227,344**	**(1,986,404)**	**(673,319)**	**652,000**
Total Balance Sheet gap 2008	6,620,308	(3,330,165)	(30,559)	1,598,146	(62,420)	(2,171,836)	(540,284)	2,083,190
Total Derivative position	**–**	**(786,480)**	**–**	**(32,251)**	**223,866**	**594,865**	**–**	**–**
Total Gap position 2009	**7,754,749**	**(6,909,943)**	**229,825**	**1,191,017**	**451,210**	**(1,391,539)**	**(673,319)**	**652,000**
Total Gap position 2008	6,620,308	(5,146,997)	185,650	1,603,146	537,057	(1,175,690)	(540,284)	2,083,190

[(1)] Excludes non-interest return.

10 …ensitivity (continued)

FOREIGN CURRENCY TRANSACTIONS EXPRESSED IN CANADIAN DOLLARS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value adjustment	Total
Assets								
Cash and cash equivalents	1,240	65,028	–	–	–	–	–	66,268
Effective yield (%)		*0.26*						
Securities	–	51,897	–	–	–	–	–	51,897
Effective yield (%)		*0.98*						
Loans, net of allowance for credit losses	7,873	–	–	–	–	–	(673)	7,200
Effective yield (%)	*3.73*							
Subordinate financing loans and investments	373	–	–	–	–	–	(15)	358
Effective yield[1] (%)	*4.60*							
Venture capital investments	–	–	–	–	–	164,732	–	164,732
Derivative assets	–	68,459	–	–	–	1,035	–	69,494
Other	–	–	–	–	–	–	–	–
	9,486	185,384	–	–	–	165,767	(688)	359,949
Liabilities and Shareholder's equity								
Short-term notes	–	65,030	–	–	–	–	–	65,030
Effective yield (%)		*0.15*						
Long-term notes	–	12,690	–	7,302	880,271	31,294	–	931,557
Effective yield (%)		*3.39*		*0.41*	*0.41*	*0.40*		
Derivative liabilities	–	14,755	–	–	–	607	–	15,362
Other	–	–	–	–	–	–	–	–
Shareholder's equity	–	–	–	–	–	–	–	–
	–	92,475	–	7,302	880,271	31,901	–	1,011,949
Total Balance Sheet gap 2009	9,486	92,909	–	(7,302)	(880,271)	133,866	(688)	(652,000)
Total Balance Sheet gap 2008	26,575	(1,025,781)	(808,205)	(10,300)	(104,123)	(160,191)	(1,165)	(2,083,190)
Total Derivative position	–	(888,379)	–	7,714	843,607	37,058	–	–
Total Gap position 2009	9,486	(795,470)	–	412	(36,664)	170,924	(688)	(652,000)
Total Gap position 2008	26,575	(2,213,053)	153,852	1,808	4,846	(56,053)	(1,165)	(2,083,190)

[1] Excludes non-interest return.

TOTAL TRANSACTIONS EXPRESSED IN CANADIAN DOLLARS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value adjustment	Total
Total Gap position for Canadian dollar transactions	7,754,749	(6,909,943)	229,825	1,191,017	451,210	(1,391,539)	(673,319)	652,000
Total Gap position for foreign currency transactions	9,486	(795,470)	–	412	(36,664)	170,924	(688)	(652,000)
Total Gap position 2009	7,764,235	(7,705,413)	229,825	1,191,429	414,546	(1,220,615)	(674,007)	–
Total Gap position 2008	6,646,883	(7,360,050)	339,502	1,604,954	541,903	(1,231,743)	(541,449)	

20 > GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS

GUARANTEES

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification provisions will vary based upon the contract. In many cases, there are no predetermined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there are no significant accruals for indemnities as of March 31, 2009.

CONTINGENT LIABILITIES

In 2004, representatives of BDC pensioners launched a class action claiming damages from BDC for allegedly breaching its fiduciary duty. BDC has a meritorious response to these claims.

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

COMMITMENTS

Undisbursed amounts of authorized loans and subordinate financing investments are $1,095,626 at March 31, 2009 ($103,203 fixed rate; $992,423 floating rate). The effective interest rates on these commitments vary from 2.50% to 16.50%. These commitments include BDC's share of undisbursed amounts of authorized joint venture financings, of $24,055. The following tables present commitments distribution by maturity date, geography and industry.

Commitments by Maturity Date	Within 1 year	1 to 5 years	Over 5 years	Total
As at March 31, 2009	12,061	86,173	997,392	1,095,626

Commitments by Geographic Distribution		2009
Newfoundland and Labrador	43,581	4.0%
Prince Edward Island	391	0.0%
Nova Scotia	26,350	2.4%
New Brunswick	26,522	2.4%
Quebec	216,526	19.7%
Ontario	364,705	33.3%
Manitoba	33,032	3.0%
Saskatchewan	33,637	3.1%
Alberta	210,174	19.2%
British Columbia	131,121	12.0%
Yukon	3,954	0.4%
Northwest Territories and Nunavut	5,633	0.5%
Total	1,095,626	100.0%

nd Commitments (continu

Commitments by Industry Sector		2009
Manufacturing	290,678	26.5%
Wholesale and retail trade	219,860	20.1%
Tourism	174,347	15.9%
Construction	131,580	12.0%
Transportation and storage	53,984	4.9%
Commercial properties	60,873	5.6%
Business services	55,426	5.1%
Other	108,878	9.9%
Total	1,095,626	100.0%

The undisbursed amounts of authorized venture capital investments were $196,006 at March 31, 2009, and are related to the following industry sectors.

Commitments by Industry Sector		2009
Biotechnology, medical and health	8,317	4.3%
Information technology	2,310	1.2%
Electronics	2,639	1.3%
Communications	961	0.5%
Industrial	50	–
Total direct investments	14,277	7.3%
Funds	181,729	92.7%
Total	196,006	100.0%

In addition, BDC future minimum lease commitments under operating leases related to the rental of premises are approximately as follows.

2010	23,144
2011	20,075
2012	16,817
2013	12,512
2014	11,186
2015 and later	52,102
	135,836

[illegible] Pension and other employee future benefits

BDC offers defined benefit plans that provide pension, post-employment and post-retirement benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Post-retirement benefit plans include health, dental and life insurance coverage.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. BDC began funding the supplemental pension plans in 2006. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes was performed at December 31, 2007, for the registered pension plan and December 31, 2008, for the supplemental pension plans. The next funding valuations will be performed at December 31, 2008, for the registered pension plan and December 31, 2009, for the supplemental pension plans. Other benefit plans are unfunded.

For 2009, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans, were $38 million ($34 million in 2008).

The following tables present, in aggregate, information concerning the employee future benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans	
	2009	2008	2009	2008	2009	2008
Change in accrued benefit obligation						
Balance at beginning of year	**581,846**	582,960	**57,989**	55,193	**123,727**	113,423
Current service cost	**16,401**	18,299	**1,064**	949	**6,279**	6,800
Interest cost on benefit obligation	**32,367**	31,099	**3,189**	2,897	**6,662**	6,043
Employee contributions	**7,487**	6,593	–	–	–	–
Benefits paid	**(26,997)**	(24,375)	**(2,166)**	(1,889)	**(5,567)**	(7,003)
Actuarial loss (gain)	**(120,835)**	(32,730)	**(10,348)**	839	**(27,690)**	4,464
Balance at end of year (1)	**490,269**	581,846	**49,728**	57,989	**103,411**	123,727
Change in fair value of plan assets						
Balance at beginning of year	**606,849**	589,914	**22,271**	15,187	–	–
Employee contributions	**7,487**	6,593	–	–	–	–
Employer contributions	**20,302**	19,910	**10,114**	9,317	–	–
Actual return (loss) on plan assets during the year	**(120,829)**	14,807	**(1,184)**	(344)	–	–
Benefits paid	**(26,997)**	(24,375)	**(2,165)**	(1,889)	–	–
Balance at end of year (1)	**486,812**	606,849	**29,036**	22,271	–	–
Surplus (deficit) at end of year	**(3,457)**	25,003	**(20,692)**	(35,718)	**(103,411)**	(123,727)
Employer contributions after measurement date	**5,272**	3,108	**9,755**	10,114	**277**	108
Unamortized transitional obligation (asset)	–	(6,721)	–	449	–	–
Unamortized past service gain	–	–	–	–	**(3,777)**	(5,456)
Unamortized net actuarial loss (gain)	**134,304**	94,454	**9,376**	19,247	**(1,463)**	27,051
Accrued benefit asset (liability) at end of year (2)	**136,119**	115,844	**(1,561)**	(5,908)	**(108,374)**	(102,024)

(1) Supplemental pension plans and Other plans are not fully funded.
(2) Net amount recognized in the Consolidated Balance Sheet as "Other assets" or "Other liabilities," as appropriate.

21 > Pension and Other Employee Futur[illegible]s (continued)

Pension and other post-retirement costs are included in Salaries and Benefits in Note 15 and are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2009	2008	**2009**	2008	**2009**	2008
Defined benefit costs						
Current service cost	**16,401**	18,299	**1,064**	949	**6,279**	6,800
Interest cost on benefit obligation	**32,367**	31,099	**3,189**	2,897	**6,662**	6,043
Actual (return) loss on plan assets	**120,829**	(14,807)	**1,184**	344	**–**	–
Actuarial (gain) loss on benefit obligation	**(120,835)**	(32,730)	**(10,348)**	839	**(27,690)**	4,464
Costs arising in the period	**48,762**	1,861	**(4,911)**	5,029	**(14,749)**	17,307
Differences between costs arising in the period and costs recognized in the period in respect of:						
Loss on plan assets	**(164,854)**	(25,084)	**(2,229)**	(1,061)	**–**	–
Actuarial (gain) loss	**125,004**	38,802	**12,099**	918	**28,514**	(3,100)
Past service gain	**–**	–	**–**	–	**(1,679)**	(1,679)
Transitional obligation (asset)	**(6,721)**	(13,441)	**450**	900	**–**	–
Defined benefit cost for the year ended March 31	**2,191**	2,138	**5,409**	5,786	**12,086**	12,528

As at December 31, the fair value of assets in BDC's registered and supplemental pension plans was as follows.

Investment type		**2009**		2008
Cash and short-term investments	**12,685**	**2.5%**	12,285	2.0%
Bonds	**212,771**	**41.2%**	241,599	38.4%
Equity investments	**273,719**	**53.1%**	362,937	57.6%
Other assets less liabilities	**16,673**	**3.2%**	12,299	2.0%
Net assets available for benefits	**515,848**	**100.0%**	629,120	100.0%

The significant actuarial assumptions adopted in measuring BDC's accrued benefit obligations and annual benefit cost (weighted averages) are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2009	2008	**2009**	2008	**2009**	2008
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.50%**	5.25%	**5.50%**	5.25%	**5.25% – 5.50%**	5.25%
Discount rate at end of year	**7.25%**	5.50%	**7.25%**	5.50%	**7.25%**	5.25% – 5.50%
Significant actuarial assumptions used to determine the accrued benefit cost						
Discount rate at beginning of year	**5.50%**	5.25%	**5.50%**	5.25%	**5.25% – 5.50%**	5.25%
Expected long-term rate of return on plan assets[1]	**7.25%**	6.75%	**3.63%**	3.38%	–	–

The average rate of compensation increase is expected to be inflation, which is assumed to be 2.50% (in 2008, 2.50%) plus 0.5% for productivity gains, plus an adjustment for merit and promotion.

[1] The expected long-term rate of return on plan assets is calculated using assets valued at fair value.

21 > Pension and Other Employee Future Benefits (continued)

For measurement purposes, cost trends were assumed to be:

Medical costs related to drugs:
> 10% in 2009 reducing by 0.67% each year to 6% in 2015 and subsequent years (10% in 2008 reducing by 0.67% each year to 6% in 2014 and subsequent years);

Other medical costs:
> 5% in 2009 reducing by 1% each year to 3% in 2011 and subsequent years (5% in 2008 reducing by 1% each year to 3% in 2010 and subsequent years); and

Dental costs:
> 6% in 2009 reducing by 1% each year to 4% in 2011 and subsequent years (6% in 2008 reducing by 1% each year to 4% in 2010 and subsequent years).

SENSITIVITY OF ASSUMPTIONS

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefit costs is summarized in the table below.

		Registered pension plan	Supplemental pension plans	Other plans
Increase (decrease) in				
Expected rate of return on assets				
Impact of:	1% increase	(6,072)	(144)	–
	1% decrease	6,072	144	–
Discount rate				
Impact of:	1% increase	(8,549)	(859)	(756)
	1% decrease	17,076	1,039	1,067
Rate of compensation increase				
Impact of:	0.25% increase	946	199	15
	0.25% decrease	(875)	(176)	(13)
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	2,022
	1% decrease	–	–	(1,543)
on the aggregate of the service and interest cost components of the post-retirement benefits other than pension cost for the period				
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	12,029
	1% decrease	–	–	(9,671)
on the post-retirement benefits other than pension accrued benefit obligation at March 31, 2009				

[illegible]

As at March 31, 2009, BDC has $1,915 million outstanding in short-term notes (carrying amount: $1,915 million) and $5,369 million in long-term notes with Her Majesty in Right of Canada acting through the Minister of Finance ($1,000 million of short-term notes outstanding at March 31, 2008 with a carrying value of $995 million).

This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan which has been approved by the Minister of Finance; and (ii) the *Master Loan Framework for Interim Funding from the Consolidated Revenue Fund to Business Development Bank of Canada* dated February 14, 2008.

Accrued interest on borrowings includes $4 million payable to the Minister of Finance as at March 31, 2009 (nil at March 31, 2008). BDC also recorded $104 million of interest expenses for fiscal 2009 relating to the borrowing with the Minister of Finance ($2 million in 2008).

BDC is also related to all Government of Canada – created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

23 > SUBSEQUENT EVENTS

As part of its 2008 Economic and Fiscal Statement issued last November, the federal government announced a $350 million capital investment in BDC to help address emerging financing gaps in Canada. BDC received $250 million in fiscal 2009 (Note 13) and an additional amount of $100 million (1 million common shares) in May 2009.

In its January 2009 budget, as part of Canada's Economic Action Plan, the federal government announced the creation of the Canadian Secured Credit Facility (CSCF), with an allocation of up to $12 billion, to purchase term asset-backed securities backed by loans and leases on vehicles and equipment. BDC has been assigned the responsibility for establishing and managing the CSCF on behalf of the federal government. In May 2009, BDC announced that over $10 billion of funding had been allocated in the Large Enterprise Tranche of the CSCF. Fifteen lenders from a cross-section of the vehicle and equipment financing industry have received the allocations. This new business initiative is expected to significantly affect BDC's Consolidated Financial Statements in fiscal 2010, but the financial impact cannot be estimated at this time.

24 > COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2009.

CORPORATE GOVERNANCE

BDC: Effective, responsible and efficient support for Canada's entrepreneurs, balancing a Crown corporation's need for the autonomy to succeed in the marketplace with Parliament's need to oversee what it is doing.

Remarks from the 2009 Conference Board of Canada/ Spencer Stuart National Awards in Governance on the qualities that placed BDC among the top three contenders in the public service category

THE BOARD OF DIRECTORS REPORTS

We oversee BDC to ensure that its activities are aligned with its statutory role and that it fulfills its mandate in an effective, responsible and efficient way.

Except for the president and chief executive officer, we are all independent of management. None, except the president, is a BDC employee. We have first-hand experience of finance, business management and entrepreneurship. Together, we have the required mix of skills and experience needed for our stewardship role.

Our central challenge is to manage a systemic tension. On one hand, there is BDC's public policy mandate to support entrepreneurs, which is inherently risky, as well as its mandate to support its shareholder by implementing new programs to help stimulate economic activity. On the other is BDC's obligation to be commercially viable.

PARLIAMENT: DIRECTION AND OVERSIGHT

Our principal guides are parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act,* Part X, sets out the control and accountability regime for Crown corporations.

Like other Crown corporations, BDC is subject to other laws, such as the *Federal Accountability Act*, the *Privacy Act*, the *Access to Information Act* and the *Official Languages Act*, as well as numerous regulations.

The auditor general of Canada, jointly with an external audit firm, audits BDC every year. At regular intervals, the auditor general also does a special examination of BDC. This examination, also done jointly with a private sector audit firm, is a performance audit. It goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness.

BDC's latest special examination began in January 2008 and ended recently. We were very pleased with its quite positive findings and welcomed its specific observations on ways BDC can improve. To see the full report, please visit www.bdc.ca.

Every year, Parliament receives BDC's annual report, as well as a summary of its annually updated five-year corporate plan.

GOVERNMENT AND INDUSTRY

We look to Treasury Board of Canada for guidance and expertise on public sector governance practices. BDC meets or exceeds all the governance standards that Treasury Board recommends.

We also look to private sector organizations for best practices to emulate. In 2009, we were pleased to have BDC selected as a top three contender in the public sector category for the 2009 Conference Board of Canada/Spencer Stuart National Awards in Governance. The judges noted BDC's innovative use of private sector recruitment methods to find high-quality candidates for senior management and the board.

THE BOARD OF DIRECTORS

Within the parameters set by Parliament and government, our duty is to

> approve BDC's strategic direction and corporate plan to meet its public policy mandate, and monitor progress;

> set performance targets and monitor progress;

> ensure that BDC is identifying and managing its risks;

> ensure the highest standards of corporate governance;

> establish compensation policies, and review and approve management's succession plan—a task that includes approving appointments as well as evaluating the performance of the president and chief executive officer;

> review BDC's internal controls and management information systems;

> oversee communications and public disclosure; and

> oversee BDC's pension plans, and establish its fund policies and practices.

We held BDC's second annual public meeting in August 2008 in Montréal. At this meeting, Chairman John A. MacNaughton and President and Chief Executive Officer Jean-René Halde presented BDC's mandate and strategy, reported on performance, and answered questions from attendees.

The Board Code of Conduct incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, we all affirm that we have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, reflect current best practices. We disclose possible conflicts of interest, if any, through a declaration of conflict of interest.

We work very closely with senior managers but also meet regularly in camera, without their presence.

Most of the work that comes before us is initially examined by one of five committees. Each committee's mandate is codified in written terms of reference. These terms are available to the public at www.bdc.ca. We regularly review and revise the membership of these committees to ensure they reflect and use members' strengths.

All five committees are independent of management, with one exception: the president and chief executive officer is a member of the Credit/Investment and Risk Committee, which authorizes large transactions within certain limits. We have appropriately high levels of financial literacy as well as the broader skills and competencies required to oversee the management of a large financial organization. In fiscal 2009, new members, following our continuous training policy, attended detailed briefings on many of BDC's specialized activities.

COMMITTEES

THE AUDIT COMMITTEE

CHAIR
Stan Bracken-Horrocks

NUMBER OF MEETINGS
6

MEMBERS
Eric Boyko
Brian Hayward
Jean Martel
Sarah Raiss

The Audit Committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Our main duties are as follows:

- review and advise the board on all financial statements before they are disclosed to the public;
- review financial disclosure;
- review the adequacy and effectiveness of internal controls, including information technology security and controls, and, in particular, major accounting and financial reporting systems;
- oversee BDC's standards of integrity and conduct;
- review the terms of engagement—including compensation for private sector individuals—of auditors and special examiners who report directly to the committee and are accountable to the board;
- give advice and recommendations about the appointments and terms of auditors and special examiners;
- review and advise the board on the audit of the annual financial statements, the scope of the special examination, and the special examination report;
- consider the appointment and work of the internal auditor, who reports directly to the committee and administratively to the president and chief executive officer; and
- review directors' and officers' expenses.

This past year, among other tasks, the committee oversaw BDC's proposed conversion to International Financial Reporting Standards, scheduled for fiscal 2012. We also reviewed management's report on BDC's adoption of the internal control certification system.

THE CREDIT/INVESTMENT AND RISK COMMITTEE

CHAIR
Thomas R. Spencer

NUMBER OF MEETINGS
24

MEMBERS
Christiane Bergevin
Eric Boyko
Stan Bracken-Horrocks
Jean-René Halde
Prashant Pathak
Rosemary Zigrossi

The Credit/Investment and Risk Committee's main duties are as follows:

- identify and manage BDC's principal risks, including credit risk, market risk and operational risk;
- regularly review the enterprise risk management policy;
- review reports and indicators related to portfolio management, including indicators related to capital adequacy review and compliance, industry-specific studies and portfolio management strategies;
- approve loans and investments that exceed the delegated authorities of senior management; and
- review policies and guidelines related to the delegation of authority.

GOVERNANCE AND NOMINATING COMMITTEE

CHAIR
John A. MacNaughton

NUMBER OF MEETINGS
5

MEMBERS
Christiane Bergevin
Stan Bracken-Horrocks
Sarah Raiss
Thomas R. Spencer

The Governance and Nominating Committee helps the board fulfill its corporate governance responsibilities. Our responsibilities include the following:

> continually reviewing best practices and regulations related to governance in Canada and, if need be, recommending changes to BDC's approach;

> annually reviewing BDC's corporate governance policies, including the Board Code of Conduct and Employee Code of Conduct;

> annually assessing the board's compliance with these policies;

> regularly reviewing the mandates, structures, and memberships of the board and its committees;

> developing selection criteria for the president and chief executive officer position;

> reviewing and annually approving required board skills for directors;

> developing processes to assess the performance of the board, its committees and individual members; and

> ensuring that comprehensive director orientation and continual training programs are in place.

THE HUMAN RESOURCES COMMITTEE

CHAIR
Sarah Raiss

NUMBER OF MEETINGS
8 (plus joint committees)

MEMBERS
Sue Fawcett
Brian Hayward
Henry K.S. Lee
Jean Martel
Rick Perkins

The Human Resources Committee's main duties are as follows:

> oversee the human resources strategy to confirm its alignment with the corporate plan;

> review—and, if considered appropriate, recommend to the board for approval—the CEO's recommendations for appointments of senior management committee members, the treasurer, the vice-president internal audit and the ombudsman, as well as any CEO proposal for major organizational structure change;

> assess the CEO's objectives and performance;

> review performance and pay for senior executives;

> review and approve the design of compensation programs and payments—including, this year, the hiring of an independent human resources consulting firm to review BDC's compensation structure;

> approve performance measures and metrics; and

> oversee the succession plan.

THE PENSION FUNDS INVESTMENT COMMITTEE

CHAIR
Christiane Bergevin

NUMBER OF MEETINGS
4

MEMBERS
Sue Fawcett
Henry K.S. Lee
Prashant Pathak
Rick Perkins
Frank Watters (observer)

The Pension Funds Investment Committee's main duties are as follows:

> monitor, and advise the board on, all matters related to the investment of the funds' assets;

> oversee that investment is in accordance with established policies;

> recommend to the board the appointment, termination and replacement of external investment managers;

> monitor the performance of these managers; and

> receive and examine the actuarial evaluation reports and financial statements, and recommend policies and strategies based on them.

For the mandates of the board committees, please see www.bdc.ca.

EMPLOYEE CODE OF CONDUCT, ETHICS AND VALUES

The Employee Code of Conduct, Ethics and Values affirms BDC's fundamental tenets: ethical behaviour, client connection, team spirit, accountability and work/life balance. The code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, trust, fairness, objectivity, integrity, and corporate and individual responsibility.

We keep abreast of best practices and review the code regularly to improve our internal governance. The code includes the policy on personal trading for employees and the policy on disclosure of wrongdoing in the workplace.

If a member of Parliament, senator or director were to exert undue pressure in making a referral to a BDC employee, the BDC referral policy requires the employee to report this situation to management, which in turn informs the board of directors.

BOARD & BOARD COMMITTEE MEETINGS & ATTENDANCE

	Board meetings	Audit	Credit/ Investment and Risk	Governance and Nominating	Human Resources	Pension Funds	Total meetings
Christiane Bergevin	13/15		19/24	3/5		4/4	39/48
Eric Boyko (1)	11/15	4/6	16/24				31/45
Stan Bracken-Horrocks	15/15	6/6	22/24	4/5			47/50
Cindy Chan	4/4				3/3	2/2	9/9
Sue Fawcett	14/15				7/7	4/4	25/26
Terry B. Grieve	3/3	2/2	4/4	2/5			11/14
Brian Hayward (2)	10/12	3/3			4/4		17/19
John Hyshka	3/3				2/2	2/3	7/8
Henry K.S. Lee (3)	9/11				3/4	1/3	13/18
John A. MacNaughton (4)	15/15			5/5			20/20
Jean Martel	10/15	5/6			5/7		20/28
Prashant Pathak	9/11		12/18			2/4	23/33
Rick Perkins	12/15				5/7	4/4	21/26
Sarah Raiss	15/15	6/6		5/5	7/7		33/33
Thomas R. Spencer	14/15	5/6	21/24	2/3			42/48
Rosemary Zigrossi (1)	13/15		18/22				31/37
Jean-René Halde	15/15		21/24				36/39

(1) Appointed to Credit/Investment and Risk Committee on April 22, 2008.

(2) As of August 7, 2008.

(3) As of September 10, 2008.

(4) Mr. MacNaughton also attends all board committee meetings as an ex-officio member.

BOARD OF DIRECTORS (at March 31, 2009)

CHRISTIANE BERGEVIN
Senior Vice President and General Manager
Corporate Projects
SNC-Lavalin Group Inc.
Montréal, Quebec

Christiane Bergevin joined the BDC board of directors in June 2005. Ms. Bergevin is a graduate of both McGill University and the Wharton School of Business. Since 1990, she has held various senior management positions in international finance with SNC-Lavalin Group subsidiaries, notably as president of SNC-Lavalin Capital from 2001 to 2008. She is recognized in Canada and internationally for her financing leadership, and has been involved in many acquisitions and arranged numerous major financings, particularly in energy and infrastructure.

ERIC BOYKO
President
Stingray Digital Inc.
Montréal, Quebec

Eric Boyko joined the BDC board of directors in August 2007. He is the co-founder and president of Stingray Digital Inc., an international company dedicated to digital media. Previously, he founded and was president of eFundraising.com Corporation. Winner of the Top 40 Under 40 prize for 2006, he is a board member of the Montréal Development Program, the Young Presidents' Organization and the Montréal Economic Institute. Mr. Boyko is a graduate of McGill University. He has a specialization in accounting and became a certified general accountant in 1997.

STAN BRACKEN-HORROCKS
President
SE Bracken-Horrocks Investments Ltd.
Vancouver, British Columbia

Stan Bracken-Horrocks, who joined the BDC board of directors in April 2005, is a retired partner at PricewaterhouseCoopers. A chartered accountant, he began at PricewaterhouseCoopers in 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is past president of the Institute of Chartered Accountants. He has served on a number of boards of directors and is currently on the board of the Vancouver Police Foundation.

SUE FAWCETT
President
Fawcett Financial Inc.
Calgary, Alberta

Sue Fawcett joined the BDC board of directors in April 2008. After serving as a vice president and investment advisor at a major financial institution, she became president of Fawcett Financial Inc., a private firm providing strategic advice to early-stage companies. Ms. Fawcett is a member of the Institute of Corporate Directors and the Chartered Financial Analyst Society in Calgary. She received her chartered financial analyst (CFA) designation in 2006 and holds a BComm degree from the University of Calgary. Ms. Fawcett previously served on the boards of the Ottawa-Carleton Economic Development Corporation, the Riverside Hospital Foundation and the Ottawa Ballet.

JEAN-RENÉ HALDE
President and Chief Executive Officer
BDC
Montréal, Quebec

Jean-René Halde joined BDC in 2005. He has more than 35 years of management experience and has, since 1979, held president and CEO positions in leading companies, including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. Throughout his career, Mr. Halde has been a board member of many organizations, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He is vice chair of The Conference Board of Canada and sits on the board of the Montréal General Hospital Foundation. Mr. Halde has a BA from Collège Sainte-Marie, an MA in economics from the University of Western Ontario and an MBA from Harvard Business School. He is also a graduate of the École supérieure de régie d'entreprise of the Institute of Corporate Directors.

BRIAN HAYWARD
President
Aldare Resources
Winnipeg, Manitoba

Brian Hayward joined the BDC board of directors in June 2008. He currently serves as president of Aldare Resources, a business consultancy that provides strategic advisory and governance services. From 1991 until 2007, he was CEO of Agricore United, the largest agribusiness in Western Canada. He also has provided leadership to many non-profit organizations, including the Royal Winnipeg Ballet, The Conference Board of Canada and the Arthritis Society. Mr. Hayward holds an MSc degree in agriculture economics from McGill University and is a graduate of the Director's College of McMaster University's DeGroote School of Business. Mr. Hayward serves on a number of public and private company boards, including Glacier Media Inc., Ridley Inc., Wellington West and the Intercontinental Commodity Exchange (Canada).

HENRY K.S. LEE
Chief Financial Officer and Vice Chairman
Tom Lee Group
Vancouver, British Columbia

Henry K.S. Lee joined the BDC board of directors in August 2008. He is the chief financial officer and vice chairman of the Tom Lee Group, a company active in real estate investments as well as in the retailing and distribution of musical instruments and equipment in Canada and China. Mr. Lee holds an MBA from the University of Toronto and a BASc in civil engineering from the University of British Columbia. He serves on several boards, is the president of the Museum of Making Music advisory board and has served as chairman of the Vancouver Board of Trade.

JOHN A. MACNAUGHTON
Chairman of the Board
BDC
Toronto, Ontario

John A. MacNaughton joined the BDC board of directors in August 2007. He served from 1999 to 2005 as the founding president and CEO of the Canada Pension Plan Investment Board. Previously, he had spent 31 years with Nesbitt Burns Inc. and its predecessor companies, serving as president of Burns Fry and then Nesbitt Burns from 1989 to 1999. Mr. MacNaughton is the chairman of CNSX Markets Inc. and vice chairman of the University Health Network. He is a director of Nortel Networks Corporation and TransCanada Corporation, and a member of the Order of Canada.

JEAN MARTEL
Partner
Lavery, LLP
Montréal, Quebec

Jean Martel joined the BDC board of directors in September 2006. He is a partner at Lavery, a Quebec based law firm, where he has been practising securities, financial and regulatory law in Montreal since 1999. From 1995 to 1999, he was chairman of the Commission des valeurs mobilières du Québec and sat on the Technical Committee of IOSCO. From 1988 to 1994, as assistant deputy minister of finance, he had overall responsibility for financial sector policy in the province of Quebec. He serves on the boards of directors of TMX Group Inc., TSX Inc., the TSX Ventures Exchange and the Bourse de Montréal. He also chairs the Independent Review Committee of The Investment Funds of the Quebec Bar.

PRASHANT PATHAK
Managing Partner
ReichmannHauer Capital Partners
Toronto, Ontario

Prashant Pathak, who joined the BDC board of directors in July 2008, is a managing partner at ReichmannHauer Capital Partners. Previously, he was a partner at McKinsey & Company Inc., and held several management and field operations positions at Halliburton and Schlumberger. He has extensive international experience, having worked in Europe, the Middle East and Southeast Asia. Mr. Pathak holds an MBA with distinction degree from INSEAD and a BTech degree in electrical engineering from the Indian Institute of Technology (IIT). He also has a diploma in fuzzy logic from IIT and is a member of the Young Presidents' Organization.

RICK PERKINS
Vice President, Communications and Corporate Responsibility
Nova Scotia Liquor Corporation
Halifax, Nova Scotia

Rick Perkins joined the BDC board of directors in March 2008. A marketing, communications and public affairs professional, he is the Nova Scotia Liquor Corporation's vice president, communications and corporate responsibility. Mr. Perkins was a co-founder of Genoa Management Inc., a Toronto-based capital markets counsel firm. He has worked with Newcourt Credit Group Inc., the Canadian Imperial Bank of Commerce, and the Government of Canada's departments of finance and foreign affairs. He is vice chair of the board of directors of the Nova Scotia Hearing and Speech Foundation and serves on two committees of the Retail Council of Canada. Mr. Perkins holds an MBA from the Sobey School of Business, Saint Mary's University, and has been inducted into the latter's Hall of Academic Excellence.

SARAH RAISS
Executive Vice President of Corporate Services
TransCanada Corporation
Calgary, Alberta

Sarah Raiss joined the BDC board of directors in April 2008. She is currently executive vice president of corporate services with TransCanada Corporation in Calgary. Before that, Ms. Raiss was president of S.E. Raiss Group Inc., a consulting firm specializing in strategy, culture change and merger integration. She has a bachelor of science in applied mathematics and an MBA from the University of Michigan, and sits on the board of governors of the Calgary Petroleum Club, the Treasury Board advisory committee on senior level retention and compensation, and the Harvard Kennedy School's women's leadership board. In 2007, Ms. Raiss was inducted into Canada's Most Powerful Women Top 100 Hall of Fame.

THOMAS R. SPENCER
Toronto, Ontario

Thomas R. Spencer joined the BDC board of directors in January 2008. He is retired from TD Bank Financial Group, where he held various positions, including vice president, corporate and investment banking; vice president, merchant banking services; senior vice president, risk management policy group; executive vice president, risk management; and vice chair of risk management. He sits on the boards of The Data Group Income Fund and Kruger Inc. He is also a member of the TD private equity investors advisory committee. He holds an MBA and a BA in economics from York University.

ROSEMARY ZIGROSSI
Vice President, Asset Mix and Risk
Ontario Teachers' Pension Plan
Toronto, Ontario

Rosemary Zigrossi joined the BDC board of directors in April 2008. Ms. Zigrossi is vice president, asset mix and risk, with the Ontario Teachers' Pension Plan, where she has also served as vice president of venture capital and as controller. Previously, she was assistant vice president at J.P. Morgan Bank of Canada and a senior auditor with KPMG. Ms. Zigrossi is a chartered accountant and a member of the Chartered Financial Analyst Institute. She has held directorship roles in a number of start-up companies. She holds a BCom in finance from the University of Toronto, has completed Harvard Business School's management development program and is a graduate of the Institute of Corporate Directors.

SENIOR MANAGEMENT TEAM

Clockwise around the table, from front left:

JEAN-RENÉ HALDE
President and Chief Executive Officer

Jean-René Halde joined BDC in June 2005. He has more than 35 years of management experience and has, since 1979, held president and CEO positions in leading companies, including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. Throughout his career, Mr. Halde has been a board member of many organizations, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute.

He is vice chair of The Conference Board of Canada and sits on the board of the Montréal General Hospital Foundation. Mr. Halde obtained a BA from Collège Sainte-Marie, an MA in economics from the University of Western Ontario and an MBA from Harvard Business School. He is also a graduate of the École supérieure de régie d'entreprise of the Institute of Corporate Directors.

EDMÉE MÉTIVIER
Executive Vice President, Financing and Consulting

Edmée Métivier joined BDC in 2000. She is responsible for developing and implementing strategies to sustain the growth of BDC Financing, BDC Consulting and Aboriginal Banking. She also oversees BDC's credit risk management. Previously, she was with the Royal Bank, where she held a number of operational positions, including vice president, small and medium-sized enterprises.

Ms. Métivier is a member of the Desautels Faculty of Management advisory board at McGill University, the McGill International Executive Institute advisory board and the Canadian Youth Business Foundation board of directors. She holds an MA in Practising Management from the University of Lancaster in England.

JACQUES SIMONEAU
Executive Vice President, Investments

Jacques Simoneau joined BDC in April 2006. He is responsible for the venture capital and subordinate financing portfolios. Previously, Mr. Simoneau was CEO of Hydro Québec Capi-Tech Inc.; senior vice president, investments, at Fonds de solidarité FTQ; and CEO of Société Innovatech du sud du Québec. He is a director of Transat A.T. Inc., Sustainable Development Technology Canada, Canada's Venture Capital and Private Equity Association, and the Club de golf de la Vallée du Richelieu. He is a member of Quebec's Conseil de la science et de la technologie and the University of Montréal's Faculty of Medicine's advisory committee. Mr. Simoneau is a professional engineer. He holds an MSc from Université Laval and a PhD from Queen's University.

LOUISE PARADIS
Senior Vice President, Legal Affairs and Corporate Secretary

Louise Paradis joined BDC in 2004. She provides legal support to all our business units and to the board of directors. She is also responsible for the development and implementation of strategies on records management. Previously, Ms. Paradis held managerial positions with Société Générale, the Canadian office of a major international bank, where she was responsible for legal affairs, human resources, the corporate secretariat and administration. She held the position of director of operations at Société Générale for two years. Ms. Paradis began her career at BDC as legal counsel. She holds an LLL from McGill University and is a member of the Barreau du Québec.

PAUL BURON
Executive Vice President and Chief Financial Officer

Paul Buron joined BDC in October 2006. He is responsible for finance, systems and technology, treasury, and enterprise risk management. Mr. Buron has acquired broad experience through leadership roles in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he was senior vice president and chief financial officer. He holds a BBA from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

MICHEL BERGERON
Vice President, Corporate Relations

Michel Bergeron joined BDC in 1999. He is responsible for strategic alliances, government relations, media relations, internal and external communications, and BDC branding. At BDC, Mr. Bergeron has held various field positions providing financing solutions to SMEs, as well as various corporate positions, such as director, corporate planning, and director, strategic and business solutions. Previously, Mr. Bergeron was an international trade economist with the Department of Finance and Industry Canada in Ottawa. A lawyer by profession, he holds an MA in international relations.

MARY KARAMANOS
Senior Vice President, Human Resources

Mary Karamanos, who joined BDC in 2002, is responsible for developing and implementing BDC's human resources strategy. She has more than 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine, U.S.A. She holds a BA in industrial relations from McGill University and the certified compensation professional designation from World at Work. She is active in the community and supports a number of children's charities.

JÉRÔME NYCZ
Vice President, Strategy and Planning

Jérôme Nycz joined BDC in 2002. He is responsible for BDC's corporate development, strategic planning framework and public policy. Mr. Nycz is also in charge of BDC's corporate and economic research and knowledge management. Before joining BDC, Mr. Nycz held various positions within the federal government, including senior economist and policy advisor for the Department of Finance, Industry Canada and the Department of National Defence. He has also worked in international relations at Export Development Canada and as an investment officer at the Canadian Consulate in Boston. Mr. Nycz is a member of the board of CIRANO and has an IMBA from Hartford University.

FIVE-YEAR OPERATIONAL & FINANCIAL SUMMARY

for the years ended March 31 ($ in thousands)

Operational Statistics	2009	2008	2007	2006	2005
BDC Financing					
Committed to clients as at March 31					
Amount	**12,176,290**	10,951,760	10,115,995	9,515,927	8,852,856
Number of clients	**27,617**	27,418	26,643	25,497	24,048
Authorizations					
Amount	**2,917,537**	2,814,349	2,586,489	2,462,032	2,230,194
Number	**7,783**	8,921	9,079	8,402	7,457
Acceptances*					
Amount	**2,831,534**	2,906,667	2,691,571	–	–
Number	**7,749**	9,143	9,394	–	–
BDC Subordinate Financing					
Committed to clients as at March 31					
Amount	**176,568**	171,991	168,725	160,246	161,290
Number of clients	**351**	341	316	305	321
Authorizations					
Amount	**45,419**	47,410	53,572	47,126	36,394
Number	**94**	103	112	104	66
Acceptances*					
Amount	**46,344**	48,660	58,407	–	–
Number	**92**	107	130	–	–
BDC Venture Capital					
Committed to clients as at March 31					
Amount	**804,665**	749,107	747,857	654,876	604,389
Number of clients	**159**	173	192	193	202
Authorizations					
Amount	**137,385**	130,484	150,733	140,016	143,119
Number	**55**	87	71	83	80

Performance Indicators					
Client satisfaction level	**92%**	93%	93%	92%	93%
Employee engagement level	**75%**	76%	80%	78%	74%
Efficiency ratio**	**41.6%**	48.0%	50.2%	48.9%	48.5%
BDC Financing portfolio	**11,117,218**	10,014,114	9,128,145	8,627,199	7,917,828
Return on common equity	**4.7%**	4.7%	8.5%	9.2%	9.7%
BDC Consulting revenue	**27,435**	24,802	23,523	21,570	18,924

* For reporting purposes, BDC Financing and Subordinate Financing data prior to fiscal 2007 are based on net authorizations.

** Includes both BDC Financing and BDC Subordinate Financing, and the fiscal 2008 figure has been restated to exclude net unrealized gains or losses on financial instruments.

($ in thousands)

Financial Information	2009	2008	2007	2006	2005
Statement of Income and Comprehensive Income for the years ended March 31					
Net income (loss)					
BDC Financing	**193,028**	160,878	167,992	141,060	163,700
BDC Subordinate Financing	**6,760**	11,007	7,945	13,682	8,818
BDC Venture Capital	**(106,291)**	(82,801)	(33,604)	(12,779)	(56,143)
BDC Consulting	**(2,930)**	(4,521)	(4,326)	(3,782)	(2,887)
Net income	**90,567**	84,563	138,007	138,181	113,488
Other comprehensive income (loss)*	**(2,249)**	(301)	–	–	–
Comprehensive income*	**88,318**	84,262	138,007	138,181	113,488
Balance Sheet as at March 31					
Loans, net of allowance for credit losses	**10,452,173**	9,481,449	8,622,646	8,129,880	7,445,861
Subordinate financing loans and investments	**155,070**	156,158	148,290	143,901	136,977
Venture capital investments	**441,631**	475,985	505,118	431,379	383,649
Total assets	**12,090,911**	11,423,566	10,804,081	10,311,423	9,445,161
Total shareholder's equity	**2,189,564**	1,867,317	1,807,718	1,691,277	1,569,569
Total liabilities	**9,901,347**	9,556,249	8,996,363	8,620,146	7,875,592

* Related to changes in accounting policies applied by BDC, starting in 2008.

GLOSSARY

ACCEPTANCE
The point at which the client has accepted the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions, after client acceptance.)

ALLOWANCE FOR CREDIT LOSSES
Represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

AUTHORIZATION
The point at which BDC has completed its due diligence and approved the client's request for financing. Authorization precedes the client's acceptance of the offered loan. (Information on authorizations disclosed in this report is net of cancellations or reductions, after BDC approval.)

CHANGE IN UNREALIZED APPRECIATION AND DEPRECIATION OF INVESTMENTS
Amount included in income resulting from movements in the fair value of investments for the period.

CONSULTING REVENUE
Fees from services provided by BDC's national network of consultants to assess, plan and implement results-driven, cost-effective management solutions.

CROSS-CURRENCY SWAPS
Agreements to exchange payments in different currencies over pre-determined periods of time.

DEBT-TO-EQUITY RATIO
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the total shareholder's equity. It excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

DERIVATIVE FINANCIAL INSTRUMENTS
Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

DIRECT INVESTMENTS
Investments BDC makes directly in investee companies.

EFFICIENCY RATIO
A measure of the efficiency with which BDC incurs expenses to generate income on its financing and subordinate financing operations. It is calculated as operating and administrative expenses, as a percentage of net interest and other income. Other income includes fee income and realized gains or losses on financial instruments from financing, and realized gains or losses on investments and other income from subordinate financing. A lower ratio indicates improved efficiency.

FAIR VALUE
The price that knowledgeable, willing parties—under no compulsion to act—would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the balance sheet date and may not reflect the ultimate realizable value upon disposal of the investment.

GENERAL ALLOWANCE
Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the balance sheet date but have not yet been specifically identified on an individual loan basis.

HEDGING
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

IMPAIRED LOANS
Loans where, in management's opinion, credit quality has deteriorated so much that there is no longer reasonable assurance that BDC can collect the full amount of principal and interest on time.

INTEREST RATE SWAPS
Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

MASTER NETTING AGREEMENT
A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts related to sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

PERFORMING PORTFOLIO
Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

PROVISION FOR CREDIT LOSSES
A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

REALIZED NET GAINS AND LOSSES ON INVESTMENTS
Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

RETURN ON COMMON EQUITY (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss, and accumulated other comprehensive income or loss.

SPECIFIC ALLOWANCE
An allowance that management establishes to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the balance sheet date.

START-UP
A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

SUBORDINATE FINANCING
A hybrid instrument that brings together some features of both debt financing and equity financing.

SUBORDINATE FINANCING INVESTMENTS
The portfolio of subordinate financing BDC holds through its joint ventures with the Caisse de dépôt et placement du Québec, AlterInvest L.P., AlterInvest II Fund L.P. and AlterInvest Inc.

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Fax: 506 851-6033

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